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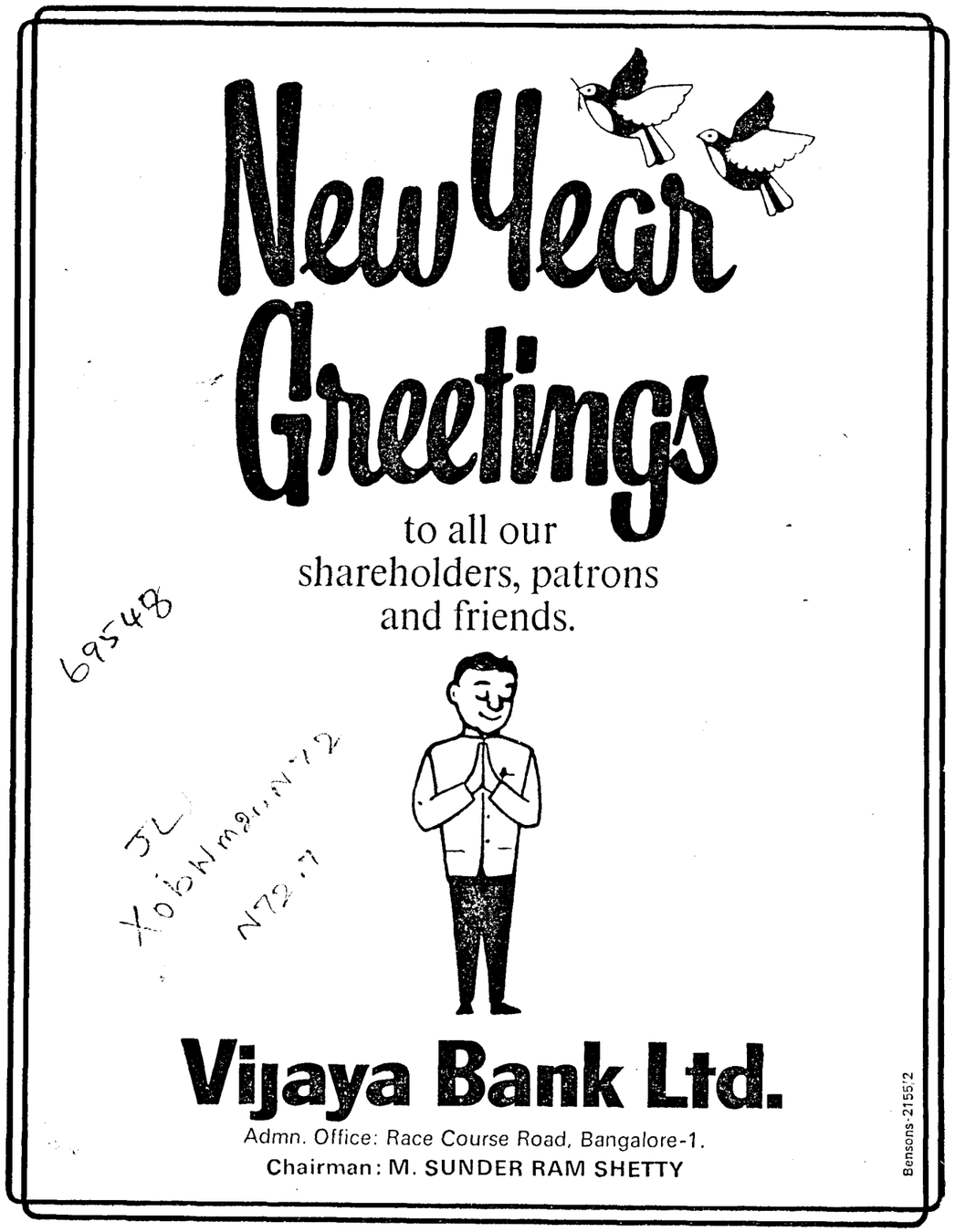
MAKING WEALTH TAX YIELD RS 350 CRORES

TITO'S NEW TROUBLES

INTERNATIONAL IMPACT OF BANGLA DESH

CRACKS IN CEYLON COALITION

MID-TERM APPRAISAL : ALIBI FOR INACTION



ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

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Pavlovian Response

THERE has been a brutish consistency about American actions in Indochina. Every threat to the American hold on Vietnam has been met by a military response. The challenge to the US position in Vietnam—or more accurately to the US-backed regimes in Saigon—has been political. The struggle has always been about how to influence and win the confidence of the people of Vietnam. On the American side this sensitive rôle has been left to be carried out by the fire-power of US and Saigon guns and planes—a notably blunt instrument for winning over people. To retain some semblance of leverage in Saigon, the Americans even extended the war into Cambodia in 1970. Not surprisingly, such a policy has led to a total loss of US influence, if there ever were any, among the people of the area.

Going by past experience no doubt, the North Vietnamese and the Khmer Rouge (the Cambodian communists) had some idea that last month's escalation of the fighting in Cambodia, so as to threaten ominously the capital of Pnom Penh, would be met by the standard response of further heavy bombing of the Ho Chi Minh trail which supplies communist forces in Cambodia as well as the Vietcong in South Vietnam, through a strip of territory in southern Laos and eastern Cambodia. Not only did the Americans react predictably by increasing the tonnage of bombs dropped on the Ho Chi Minh trail but they also sent in wave after wave of their planes to attack North Vietnam continually for five days, last week. The scale of the air attacks on North Vietnam was much greater than that of any of the relatively minor air actions carried out since Lyndon Johnson halted the large-scale bombing of North Vietnam in 1968, mainly as a sop to the then vociferous anti-Vietnam War lobby in the United States.

It is quite possible that the North Vietnamese had half-hoped that some increase in activity by the national liberation forces in South Vietnam and in Cambodia and Laos would lead to the renewal of bombing of North Vietnam, as this would provide political and material dividends for Hanoi. From at least one source the dividends have already begun to flow in. The Russians have promised more military and economic aid to the Vietnamese, berated the Americans for their latest act of aggression and probably gained a point or two over China in Hanoi's eyes. The Chinese response came belatedly—three days after the renewal of the bombing—and was in the shape of a statement describing the US actions as "barbaric". But if the North Vietnamese had hoped that an increase in the tempo of fighting in Indochina and the renewal of bombing would pose a serious obstacle to Nixon's arrival in Peking, scheduled for February 21, their expectations were over-ambitious.

Neither the United States nor China can seriously be expected to be distracted from their global strategic outlooks by 'local' difficulties in South-East or South Asia. And it is quite clear to both Washington and Peking that although they need not come to any close understanding of each other's world views they must establish a *modus operandi* to prevent any disastrous miscalculation, now that China is also a super nuclear power. The Russians have realised this, too, and have sought talks with the Chinese over Russo-Chinese border issues. The Nixon visit to Moscow after the Peking visit has also, in no way, been jeopardised by the open Russian support for North Vietnam and for India, though at one point during the Indo-Pakistan conflict Nixon had made threatening noises about cancelling his Moscow tour.

Of course, for Nixon, the strategic considerations are as important as his election calculations and both these sets of calculations do not allow for a humiliating defeat of American forces and their 'allies' in South Vietnam during his election campaign which will go on till November, 1972. The furious air attacks on North Vietnam transparently exhibit the degree of nervousness that the White House feels about a collapse in Vietnam or Cambodia or Laos before November. At the same time, serious reverses in Indochina have to be prevented at minimum loss to American life—lives lost are also votes lost. The promise to continue the withdrawal of US ground troops must also be kept to retain the confidence of the American electorate.

Nor can an obvious weakening of the US position in Indochina be permitted before or while Nixon is talking to Chou En-lai or to Kosygin, as this would seriously harm US prestige at these meetings. The only suitable repartee to the challenge of the Indochinese liberation fronts and of North Vietnam is, therefore, a vicious use of air power. The maiming and killing of thousands of Indochinese civilians is a minor, or even non-existent, consideration. Other considerations, like the effect this will have on opinion in Asia and elsewhere, are not of much importance either, when a US president is calculating his immediate election prospects or considering US strategy towards China and the Soviet Union.

Monopolies Commission

Abdication of Responsibility

SERIOUS differences of opinion have reportedly emerged in the three-member Monopolies Commission in regard to the Telco proposal for expansion of its heavy truck production capacity. If this is true, then this will not be the first case where such differences have appeared. According to press reports—and given the Government's refusal so far to make the Commission's reports public, there is nothing better to go on—out of the six or seven cases on which the Commission has submitted reports, unanimity has been achieved only on two or three, all of them relatively trivial merger proposals having no relevance to either the problem of concentration of economic power or monopolisation of markets. In each of the other four cases involving substantial expansion proposals with significant implications for concentration and/or monopoly, the Commission has been divided, two of the members supporting and one opposing the proposals.

Against this background, in order that the public may not lose confidence in the working of the Commission and in the final decision-making by the Government, it is essential that the complete report of the Commission on every case considered by it is placed before Parliament. The Government has, however, narrowly interpreted its obligation under section 62 of the MRTP Act to place the reports of the Commission before Parliament. It has taken the view that this obligation refers only to the administrative reports (in the form of a yearly report giving summaries of the Commission's findings in individual cases) and that the Government has no obligation to make public the Commission's reports on individual cases. This is contrary to the policy and practice in the UK where a detailed and complete report of each case is published. Apart from other considerations, by withholding the Commission's reports, the Government is shutting out a major opportunity to build up systematic information relating to the economics of business concentration.

Equally perverse appears to be the approach of the majority of the Commission to the Commission's obligations and methods of functioning in investigating cases involving concentration of economic power. In the Telco expansion inquiry, for instance, it is evidently on the question of fulfilment of the Commission's investigatory functions that there have been sharp differences between the majority (the judge and accountant members) and the minority (the economist member). The majority appears to have taken the view (which is consistent with the view it had reportedly taken in relation to Birla's Century expansion proposal) that since by its own size Telco comes within the meaning of section 20 by which the Act's anti-concentration provisions become applicable to an undertaking, there was no need for the Commission to investigate Telco's interconnections with other undertakings or to establish whether or not it was a part of the Tata group. In this case, the majority appears to have buttressed its argument by further pleading that, since expansion of truck production by Telco serves defence requirements in an important way, the approval of the project should not be delayed on account of investigation into Telco's interconnections. The minority view, on the other hand, appears to be that the implications of Telco's expansion proposal for concentration of economic power, and hence for the public interest, cannot be fully and properly examined before the Commission's investigation into Telco's interconnections with other (Tata and non-Tata) undertakings is completed.

If this is a broadly correct characterisation of the differences within the Commission, it brings to light the basic confusion among the members on the role and methods of functioning of the Commission. The Monopolies and Restrictive Trade Practices Commission is not a court of law (through the appointment of a retired judge as its chairman may have created that impression) which pronounces judgment on the basis of evidence led before it. Its investigative function is the Commission's very *raison d'etre*. That is why there is statutory provision for the appointment of a Director of Investigation. It has been repeatedly pointed out in these columns that the criteria of public interest enumerated in the MRTP Act are too general to be applied to particular cases. Similarly, the definition of 'interconnected' undertakings contained in the Act is almost impossible to apply, especially after the abolition of the managing agency system, to the actual mechanics of the exercise of group control over companies. These and other gaps in the MRTP Act can be filled in only by the detailed investigative work of the Commission which will throw light on how concentration affects public interest in particular cases or how group control is actually exercised. The case for investigation is all the stronger and the value of such investigation likely to be the greater, in instances such as Telco or Century where, *prima facie*, the companies' interconnections appear to be of the utmost significance for the purposes of Chapter III of the MRTP Act dealing with concentration of economic power.

Nor is the specific argument against the need for detailed investigation raised in the Telco case—that since Telco is by virtue of its own size a large undertaking covered by section 20, there is no need to examine and determine its links with other companies in the Tata group and outside it—valid in the least. For, while the expansion of a large company like Telco will itself have implications for concentration of economic power, these implications will be the more profound if the company has wide-ranging interconnections and ramifications with a large number of other companies. And without investigation of the latter aspect, the Monopolies Commission can come to no worthwhile judgment about whether the expansion proposal in question is in the public interest or not.

The delay which it will necessarily involve cannot be adduced as an argument for the Commission not carrying out its investigative function. If a particular proposal is such that it calls for immediate approval, then it is always open to the Government not to refer it to the Monopolies Commission. But once a case is referred to it, the Commission must do its job properly without looking for extenuating circumstances (such as, for instance, the defence significance of the Telco expansion proposal). Otherwise, the impression is created that a proposal has been approved after proper investigation by the Monopolies Commission when in fact there has been no such investigation. This would amount to nothing less than deliberate deception of the public. The Commission is unlikely to enhance its standing and prestige by becoming a willing party to such chicanery, for perpetrating which the Government may have its own political motives.

More generally, all this once again exposes the basic error of tying up the Monopolies Commission's investigations into monopoly or concentration of economic power with executive decision-making on matters like licensing of new industrial ventures and approval of expansion of existing ones. This arrangement makes it possible for the Government to have the best of both the worlds. It can take credit for showing awareness of the dangers of monopoly or concentration of economic power by referring specific cases to the Monopolies Commission. At the same time it can indirectly prevent proper investigation of these cases by the Commission by harping upon the need to approve them quickly because of their importance (which may be real indeed) for, say, industrial growth or defence production. The frequent references by Government spokesmen to the work of the Monopolies Commission in the context of the recent slow growth of industrial production (which have successfully created the impression that a *major responsibility* for the industrial slack is that of the Commission) are nothing short of an attempt to pressurise the Commission to abdicate its *responsibility*.

This basically untenable position can be corrected if cases of *prima facie* monopoly or concentration are referred to the Commission for investigation independently of pending government decisions on applications for industrial licences, etc. The Government can then take its decisions on these matters according to its own lights, but without the pretence that they have been cleared by the Monopolies Commission from the monopolies or concentration angle. For its part, the Commission can conduct its investigations with the necessary thoroughness, without the Government breathing down its neck, and direct its recommendations at forced liquidation of intercorporate investments or divestment of intercorporate management control, instead of at the approval or rejection of an industrial licence application. Apart from the considerations mentioned above, action in these areas can be far more effective in curbing monopoly and concentration of economic power than, say, the denial of an odd industrial licence here and there.

Elections

One-Party System, Once Again

THE Chief Election Commissioner has —very correctly and properly—announced that assembly elections would be held in early March in seven states. These are the states where the assemblies elected in the fourth general elections in 1967 have survived and whose five-year terms expire in March. There are four other states—Gujarat, Mysore, Punjab and West Bengal—which have been under President's rule for varying periods. To the list has now been added Bihar where the non-Congress Chief Minister of the Congress-dominated coalition has obligingly resigned to make way for President's rule. It may be taken for granted that there will be elections in March in these states, with the possible exception of West Bengal. This leaves Haryana, UP, Kerala, Orissa and Tamil Nadu where there are functioning governments and where the terms of the assemblies do not expire yet. Of these there will be no election in Tamil Nadu; whether any or all of the other four states will go to the polls in March will depend largely on the relative pulls of different factions within the state Congress parties. The factions which are in power (in Haryana and UP) or those which are dominant in the legislature parties (in Orissa and Kerala) will try to fend off elections.

Wherever the elections are held, the Congress doubtless expects to see the further consolidation of its position, the beginning of which process was witnessed in the Lok Sabha elections last year. If this expectation is fulfilled, the party would have completed the reveral of the adverse turn of its political fortunes in the fourth general elections five years ago. This, it may be claimed, would mostly represent no more than the result of the momentary popularity of the party, and the Prime Minister particularly, following the victory in the war with Pakistan. Also, the Government has so far given no undertaking that the state of emergency would be lifted before the elections are held. If it is not, much may be made of the incongruity of holding 'free' elections with all the fundamental rights of the people suspended. However, neither of these circumstances may in fact matter very much. The Congress faces a well organised opposition only in West Bengal and Kerala, both or either of which may not go to the polls. In any case, the policy of violent suppression of the CPM was in operation in West Bengal (and to a lesser extent, in Kerala) before the state of emergency was imposed and can doubtless be carried on regardless of whether the emergency is continued or not. In the other states there simply is no cohesive opposition to the Congress.

Nor was there in 1967. The seemingly startling reverses suffered by the Congress in the fourth general elections in a number of states (it failed to get a majority in eight state assemblies) were the result of the break-up of the Congress itself rather than that of the emergence of any viable alternative to it. This was evident from the fact that in five out of the seven non-Congress coalition governments formed after the 1967 elections, the leadership of the united fronts went to dissident Congressmen. Thus the Congress failure was to be attributed substantially to the break-down of the party's internal conflict-reconciliation mechanism and the consequent externalisation of the erstwhile internal opposition system which had functioned within the Congress all through the period of one-party dominance since Independence. This failing has now been corrected and one has seen in the recent return into the Congress fold of large numbers of defectors the internalisation, so to speak, of the conflicts which had been earlier externalised. This process has of course been accelerated by the climate of political opinion in the country created by the victory in the war. Thus conceptually the coming elections should see a return to the system of one-party dominance all over the country, with the exception of three states—West Bengal, Kerala and Tamil Nadu. Consistent with this, and contrary to popular expectations, the Prime Minister is likely to use her undoubted personal supremacy in the party not so much to forcibly install particular factions in control of party units in the different states as to mediate among the factions and effect workable compromises. Her task is made relatively easy by the fact that open revolt and defection have become politically fruitless for the moment.

The Congress has no interest whatsoever in seeking alliances with other parties in any of the states likely to go to the polls, except West Bengal and Kerala. In these two states it would want to prevent a scattering of the non-CPM votes, but even there it will take care to keep for itself a sufficiently large number of seats to enable it to form governments on its own in the event of the CPM being defeated. In some of the other states the Congress high command may decide, as a formal mark of respect to the emerging Soviet 'link', to give (without attracting the stigma of any formal alliance, however) a handful of seats to the CPI. Kept alive in this fashion, the innocuous CPI can even be made to appear as a counter to the more dangerous CPM.

Fattening the Milch Cow?

IN an evident effort to press rayon weavers into accepting an upward revision of yarn prices, Minister for Foreign Trade, L N Mishra, stated in Parliament that costs of rayon yarn spinners had gone up considerably since the Tariff Commission report, so that spinners and weavers should now arrive at a voluntary agreement on price and distribution fair to both. The current agreement expires on January 1. While weavers and spinners have been meeting in Delhi to hammer out a settlement, weavers have made it known that they are averse to such management of prices and would rather base them on the Tariff Commission's recommendations. That the request would be in vain should have been obvious to the weavers; when no agreement could be reached, Government simply extended the deadline for concluding the pact to January 10. Clearly, it wishes to avoid statutory control—although it must know that any 'voluntary' settlement would, given the structure of the yarn market, be in favour of the spinners.

The Tariff Commission report on rayon yarn prices which was submitted in 1969 has never been fully released to the public. The section referring to rayon tyre yarn, cord, and fabric, was released, and prices for rayon materials for tyre manufacture were stipulated in a notification to spinners over a year ago. But the notification has remained inoperative and the 'action' threatened by Government has failed to materialise. Even had price control on rayon tyre material been successful, it would have covered only one-fifth of the total rayon capacity in the country. The remaining and major part of the yarn produced goes to weavers of textiles and continues to fetch a minimum price of Rs 10 per kg—above the Tariff Commission's recommendation, weavers suspect, of Rs 9 per kg. Spinners now want a 12 per cent increase in this price. Reports are that the weavers have come round to nearly conceding the spinners' demand.

The spinners of rayon yarn operate like a cartel. An agreement among them for 'fair distribution' of pulp and staple fibre for yarn manufacture was comparatively painlessly reached recently. Among the seven spinners, the Birla units dominate, providing also a major part of the indigenous supply of pulp and staple fibre. The DCM unit alone specialises in tyre rayon material, the others produce rayon materials for tyres as well as yarn for textiles. Gwalior (Birla) and South India Viscose have been the pulp and staple fibre suppliers, with the balance requirements being imported. Imports should be considerably reduced after mid-1972, by when Gwalior's and South India Viscose's expansions would sizeably increase supplies of staple fibre. It was naturally expected that, with raw materials more easily available, the free market yarn prices could be pegged to the 'ceiling' fixed by the spinners for the 52.5 per cent direct quota to weavers. That hope has been belied in the spinners' present demand for a 12 per cent increase in price to accommodate 'costs'.

Why should costs be accommodated? Analysis of the spinning companies' performance shows that they have always made handsome profits. In the absence of competition from synthetic yarns, such as nylon, polyester and polypropylene, rayon spinners have never needed to lower their price. Profitability of the industry has gone up over the past three years even as production has remained stagnant. Internal prices of rayon yarn are substantially higher than corresponding international prices. Even the Tariff Commission formula is reported to be highly liberal, allowing a 16 per cent return, net of bonus payments.

It might be argued that, with an overwhelming part of rayon textiles being consumed in the home market by comparatively well-off people, it hardly matters if the burden of higher prices is passed on to them. But why cannot the surplus, which the consumer could bear, be siphoned off in excise duties, rather than be left to fatten the profits of uncompetitive spinners? Or does a siphoning-off for 'public' purposes take place anyway?

Gold

A Stable Spell

D C Kale writes :

THE free market for gold will at last be stabilised for a short spell consequent upon the change in dollar parity to $ 38 per fine ounce of gold, or so one hopes. The seemingly indestructible price of $ 35 has at last changed and, while the world's currencies are readjusting to one another, it is worth reviewing the position of gold stocks and movements in the immediate past and future. The international free price went up rapidly to $ 41 in May this year and then to $ 43.20 in August; however, following suspension of dollar convertibility the price went down again to $ 41.70. At the time of the dollar devaluation last week, the price was around $ 42.85 in London. It is thus seen that the price of gold has been affected relatively little by changes in currency parities since May, and it can be confidently predicted that in future as well the gold price will depend on industrial, rather than monetary, demand. Gold stocks being largely held by the monetary authorities, however, the latter cannot be ignored. Four other factors can influence the price in the next few years: South Africa, IMF, speculators, and the US economy.

South Africa, with an annual output of about 1,000 tonnes of gold, would appear to be a substantial beneficiary of the new price. In actual practice it will gain relatively little advantage, because it was already selling about 85 per cent of its output at a premium in free market transactions for over a year; the present change represents a raising of the floor price, as it were, rather than an increase in profitability. South African gold mines made a profit of about 201 million Rands (2 Rand = £ 1) during the year ended September 30, 1971. The additional revenue from premium gold sales amounted to R 63.6 mn (equivalent to over $ 5 per ounce) in the first nine months of 1971, and each quarter showed an increasing figure. Gold accounts for about 38 per cent of South African exports. The SA Reserve Bank holds about R 330 mn in gold reserves (out of total reserves of some R 470 mn) and sells gold at a premium in adroit transactions throughout the year. Incidentally, the other important factor in South Africa's economy has been the inflow of foreign capital which, at a level of R 725 mn last year, practically offset the deficit in the country's balance of payments. Much of this new capital goes into gold mining shares.

The International Monetary Fund's transactions in gold during the last fiscal year, as shown by its annual report, were substantially higher than in any previous year. The Fund bought (or received) gold worth $ 2,684 mn and disbursed gold worth $ 1,109 mn to Members. The Fund's holdings at the end of October 1971 were valued at $ 4,724 mn, which is an increase of $ 1,900 mn in one year. This is a substantial figure, and is more than the value of gold produced during the year. Upto the end of October in 1971, the Fund sold $ 378 mn worth of gold for currency, and bought gold worth $ 137.6 mn. In addition to sales of gold to purchase currencies, the Fund has also sold gold worth $ 400 mn to the US, for acquiring income-earning US treasury bills and short-term notes. The holdings of gold by central banks and governments has shown a steady but slow decline since the middle of 1970. The figure retreated from $ 39,140 mn in April 1970 to $ 36,480 mn at the end of the second quarter in 1971. (These figures are expressed in US dollars at $ 35 per fine ounce. The change to $ 38 *should* represent a major increase in the liquidity position of Members, but of course that is the nub.)

Speculative sales during the last three years have averaged about 200 tonnes per year. This source was responsible for bridging the gap between new production and total demand. Production of new gold in 1970 was 1,295 tonnes, while demand for fabrication, etc, is between 1,300 and 1,400 tonnes. About 200 tonnes are believed to have gone into long-term hoarding. Thus it is seen that sales of speculative gold must have been of the order of 400 tonnes last year, since all new gold was not sold in the year of production by South Africa. It is also evident that speculative stocks must be running very low by now, and cannot materially affect the market for some time.

The last factor which can influence free gold prices in the near future is the strength of the dollar itself. If the US economy does indeed show a growth of 5.5 per cent this year the dollar may well be stable. However, it is doubtful if the US balance of payments could shift by $ 11,000 mn, as hoped by the administration, or even by $ 7,000 mn as assumed by the Group of Ten, in one year without speculative pressures building up both against the dollar and against gold. The distribution of monetary reserves is very uneven—West Germany *alone* holds as many dollars in reserves as the gold held by the US Treasury for convertibility—and the central banks must show wisdom and patience in not rushing into conversion one way or the other. Experience indicates that they will do so.

To sum up, then, it would appear that free market transactions in gold will not show any major fluctuations in the next few years. The price will probably creep up to $ 45 by 1975 due to an increase in demand. In the late 70s, one can expect the world's currencies to start another round of infighting which will decide the prices thereafter.

Banks

Year-End Enigma

THE demand for bank credit remains weak. During the current busy season, that is, from October 29 to December 17 (the latest date for which banking data are available), scheduled commercial bank credit recorded a net contraction of Rs 14 crores (to Rs 4,825 crores). In the corresponding period of the 1970-71 busy season, bank credit expanded by Rs 126 crores (to Rs 4,407 crores). The weak demand for bank credit has coincided with a deposit surge. Thus, deposits increased by Rs 180 crores to Rs 6,761 crores between end-October and mid-December against Rs 92 crores in the corresponding period of the last busy season.

Banks are thus flush with funds. But where have their deposits gone? Their cash balances increased during the period under review by Rs 26 crores to Rs 421 crores and investments by just Rs 49 crores to Rs 1,614 crores. This accounts for just about Rs 75 crores or less than a half of the deposit-growth shown in the banking returns. Are deposits being overestimated or is bank credit underestimated? Or is a large chunk of deposits in transit in the shape of "inter-branch" adjustments?

Whatever the explanation, it is not a little curious that banks increased their borrowings from the Reserve Bank by Rs 6.72 crores to Rs 25.35 crores between the end of October and mid-December. Possibly this increase was necessitated by the heavy advance tax payments that fell due in December. The Reserve Bank returns for the week ended December 17 show a spurt in Central Government balances by Rs 53 crores to Rs 117 crores. But the data for scheduled commercial banks for that week show a credit expansion of just Rs 4.46 crores to Rs 4,825 crores.

How precisely bank credit behaved the following week is not yet known, but Central Government balances swelled by a further Rs 161 crores to Rs 279 crores during the week ended December 24. This largely stemmed from the Rs 110-crore subscription, mainly by banks, to the national defence bonds on December 20. And, according to the latest Reserve Bank returns, scheduled commercial bank borrowings from the Reserve Bank increased by Rs 85 crores to Rs 110 crores on December 24. If deposits are surging and credit demand is weak, why should banks borrow from the Reserve Bank to subscribe to the defence bonds?

At one time it was believed that through defence bonds the Government was seeking to tap the bank deposits it had helped generate through massive deficit spending (Rs 894 crores during the current fiscal year to December 10, including Rs 199 crores during the fortnight ended December 10). It would now appear that it is the Reserve Bank which through massive loans has enabled the banking system to subscribe the bulk of the Rs 110 crores funnelled in by the defence bonds. The fiction of "loan subscription" had been totally abandoned. But why, despite such support from the Reserve Bank, has the inter-bank call rate crossed the 6 per cent (Bank rate) mark and touched 7.5 per cent?

Shipping

Interest Rates Policy Relaxed

AFTER the advent of South India Shipping Company (set up by the India Cements group) some eight years ago, the only new shipping company to come up is JK group's Seven Seas Transportation. Despite the initial scepticism about this diversification by the promoting company, JK Chemicals, it has to be admitted that the venture is noteworthy not only for the addition that it will make to the national tonnage but also for the boldness displayed in tapping new avenues for financing foreign exchange requirements.

According to reports, Seven Seas will make a capital outlay of Rs 9.70 crores, including a fleet cost of Rs 9 crores. A five-year Euro-dollar loan of about $ 11 million from the First National City Bank is expected to be obtained for the acquisition of ships in the 20,000 to 40,000 DWT range.

The interest on the FNCB loan will be 1.75 per cent over the inter-bank rate for Euro-dollars in London. This means, in effect, that excluding commitment charges, Seven Seas would be paying an annual interest of 9 to 10 per cent on its five-year loan. Raising shipping finances on such terms was till recently unacceptable to the Government. Also Indian shipping companies found the debt servicing and amortisation burden forbidding. Seven Seas thus appears to have succeeded in persuading the Government to effect a change of policy. The development should interest other Indian shipping companies.

Seven Seas have been the first to exploit the present (very likely, short-duration) slump in the world demand for ships. Conditions are now more favourable than before for outright purchase of ships and for building of new ships.

CAPITAL VIEW

Peace or War?

Romesh Thapar

EVERYONE is in a generous mood. Naturally, we are at an euphoric moment when we imagine that perhaps the civil and military system we have built up is not as hopeless as we had once imagined. Indeed, we feel we have blinded ourselves to our solid achievements. Criticism is at a discount. The revanchist outpourings of the Jagadguru of Puri make no impact. Even the ridiculous spectacle of our ambassador in Islamabad, on repatriation, throwing himself on all fours on the tarmac of Palam Airport (embracing mother Earth, no doubt!) does not disturb. Yes, we have seldom exhibited such confidence.

However, much as we would like to, we are unable to shed our troubled thoughts about peace and war. Zulfikar Ali Bhutto is an enigma. Do his rantings mark the beginnings of a "fascisation" of Pakistan? Is his mix of nationalism and socialism dispensed to create the basis for some kind of revenge following the disaster in Bangla Desh? Or should we treat his public performances as a necessary therapy for his angry people? Maybe, a different Bhutto will emerge when the harsh realities have been properly assessed. Obviously, he has acted speedily on several fronts to gain credibility. In any case, who else is there at the moment to challenge Bhutto.

The psychopathic in Pakistan — and Bhutto is their sophisticated leader — are quite capable of selling the idea of a 'revenge'. Repeated infiltrations in Kashmir, with the Chinese demonstrating their occupation of Indian territories north of the Karakoram range, even skirmishing here and there, could become a feature of life on the subcontinent in 1972. And the dream that Bangla Desh will again seek some relationship with an enlightened Islamabad would be kept alive.

All this could happen, despite the fact of the Pakistani military disaster. A hundred thousand soldiers are out of action, men drawn from the Punjab heartland of Pakistan. The air fleet is incapable of contesting. And the Navy has more or less ceased to exist. To put this shattered military machine together again is not so difficult a task, particularly if the Nixons and Kissingers are playing at war, but Pakistan has to live with the new truth that it is now a minor power, incapable of mounting any sizeable threat. Is Bhutto realistic enough to stomach this truth and to operate within its disciplines?

The talks with Sheikh Mujib should prove interesting. Mujib knows the key role that Bhutto played in preventing a confederal solution to Pakistan's crisis. The significance of Bhutto as the champion of "autonomy" will not be lost on the founding father of Bangla Desh. Mujib will talk only when he has returned to his people—and Bhutto, dare not prevent his return. There are hidden currents in revolutionary events which are impossible to dam.

Meanwhile, diplomatically, we are busy clearing the way to the international recognition of Bangla Desh. As *de facto* recognition is on the way, but it is most necessary to speed fuller and total diplomatic relations for the new state. India is anxious that the problems of Bangla Desh be handled by the Government of Bangla Desh. An intensive exercise is on to lay the basis for this.

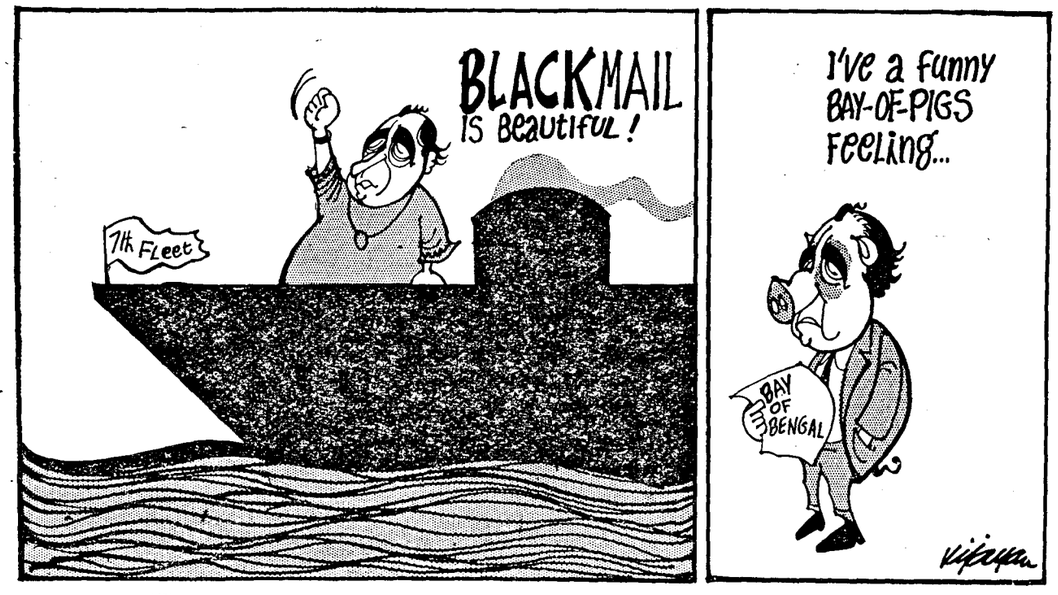
In other words, even before we can begin to think of how help can be organised massively to rehabilitate Bangla Desh, effective steps will have to be taken to remove the POWs, to curb the passions of those who have been brutally terrorised and to restore some of the essential elements of normalcy. In this, the armed formations of the Bangla Desh Government will have to play a major role. The Indian army cannot be expected to stay in Bangla Desh any longer than is absolutely necessary. The withdrawal of our military presence must be rapid and complete.

Naturally, speculation has started on the capacity of the Awami League to cope with the situation. Many new forces, born during the last six months, are in the picture. How these will fuse and co-ordinate remains to be seen. However, the gloomy forecasts now appearing in Western media have little relevance. Bangla Desh has been through traumatic experiences. It is unlikely that the people will allow the new found unity to be frittered away by adventurist politicians and interested lobbyists.

Pakistan's effort will be to describe the liberation of Bangla Desh as an occupation by India. Communal consciousness in the subcontinent is such that errors will be magnified. For the first time, India will be called upon to face tests which it has not been exposed to before. All this calls for decision-making of the highest order, free from euphoria, imbued with perspectives and based on solid secular sense. Fortunately, it is precisely in these areas that Indira Gandhi has shown solid insights.

Against this kind of background, it looks very much as if 1972 will be a year of peace, troubled peace, but peace nonetheless.

December 27



Two portraits of a great President

COMPANIES

Charging for It All

Hansavivek

BROOKE BOND INDIA, last year, recorded a further notable increase in its packet tea exports which have the added advantage of being more sophisticated and of greater 'added value' as far as foreign exchange earnings are concerned. The company envisages good scope for further increases, particularly in the Middle East. A sophisticated tea-bag machine has been recently installed in the Coimbatore factory, and initial export orders are encouraging. The company has placed orders for more such machines. Traditional tea exports in original chests were slightly lower than in the previous year, because Indian producers reverted to shipping more tea direct to the UK, thus curtailing the company's trading ability from India. The company continued useful instant coffee business with the USSR, and expects to do even better in the future when its plants will be working to increased capacity. In addition, a coffee trading department has been opened at the new Whitefield factory near Bangalore. The initial export sales from this department are encouraging. The company has also made small exports of curry powder and various spices, and expects to do better in the future. Changes in tea taxation under the 1970 budget were meant to encourage exports and restrict domestic offtake. Export duty was abolished and estate excise was increased but substantially rebated on export. Because of these changes, foreign buyers were able to pay notably more in terms of rupees for their requirements. Consequently, tea prices in Calcutta and Cochin during 1970-71 increased by about 12 per cent.

The packet excise on tea was more than doubled and it now stands at one rupee per kg on most of the company's trade. J C Brock, chairman, complains that this represents serious discrimination against the sale of tea of "consistent quality in hygienic packets" thus giving an unfair advantage to the loose tea trade which bears no specific excise. The company experienced a difficult year for coffee because of a poor crop, owing to which the average price-level doubled. The new crop, which became available later, was abundant and prices again dropped sharply. Despite temporary problems, the company's new instant coffee and chicory blend continued to make good progress. The combined effect of commodity price movements and additional excise was to increase by 18 per cent the average price of tea and coffee, most of which was passed on to the consumer. This caused some "notable resistance", particularly as prices of many other commodities were also rising at the same time. The increase in BBI's sales revenue was largely owing to higher commodity costs and additional excise.

The chairman envisages the possibility of a relative shortage of tea in the world due to the Pakistan debacle. The company intends to continue efforts to widen the base of exports to include a higher percentage of food products other than tea. Prospects for coffee, in particular, look good because of the abundant crop. In the domestic market, the company is still recovering from the aftermath of the 1970 budget, and sales remain below expectations. But this is also partially due to the inclement weather, particularly the excessive flooding in Northern and Eastern India which has caused severe hardship and badly disrupted communications. It is expected, however, that tea sales will improve later in the year, provided the Indian tea crop is sufficiently good and prices stabilise around last year's higher levels. Coffee sales are recovering and the company has been able to substantially reduce its prices again. It expects to take advantage of abundant supplies.

HINDUSTAN MOTORS contends that it could not sell trucks to the extent of the licensed capacity because from the very beginning it was made to use Perkins engines in lieu of Bedford engines, the original fitment. Perkins engine, it adds, turned out to be unsuitable for the Bedford truck, which is reputed to be the largest selling truck in the world outside the US and the communist countries. The company was permitted to manufacture an engine of original specifications of Bedford truck and installed the requisite plant at a cost of $ 23 million besides the rupee expenditure. But it was required to use certain local components which were unsuitable for the engine, with the result that the engine did not work satisfactorily. After "great persuasion" the company has been allowed to import these components in small numbers. In manufacture of cars, the company says that almost all the components are produced within the country but most of the steel required is still imported because of the inadequate supply in the country. Moreover, dies, tools, jigs, and fixtures, set up for the manufacture of cars a long time back, are wearing out. It was decided to replace them for taking up manufacture of a new model in collaboration with a West German firm, Adam Opel Aktiengesellschaft, but the proposal has yet not been approved by government. The company recorded all-round improvement in the output of excavators, steel structurals fabrication, steel castings, and ingots, and also maintained production of cranes.

Technical drawings for some models of presses were imported for taking up their manufacture. Construction work of the plant at Trivellore for the manufacture of earthmoving equipment is nearing completion. Commenting on the inordinate delays in issuing licences, the directors say that a licence was granted to the company for import of components required for the manufacture of dumpers in June 1971 after about 11 years of starting negotiations for the project. A licence for the import of components required for the manufacture of Crawler tractors was granted in September last, and a licence for the import of components required for the manufacture of front end loaders was issued thereafter. The production is expected to commence during the current year. The company's export performance has not been encouraging, with exports of trucks, spare parts and flanges, amounting to only Rs 52 lakhs. During its 29th year ended March last, HM produced 24,400 cars and 1,501 trucks against 22,250 numbers and 1,525 numbers, respectively in the previous year. Gross profit was lower in spite of considerably higher sales. This outcome is attributed to all-round rise in costs of steel, other raw materials, indigenous components, stores and other expenses. The company was also not allowed to increase the price of its cars to compensate for the "continuous rise" in the cost of production. It has been permitted provisionally to increase the price of cars by Rs 1,497 in the current year. No dividend has been recommended. In terms of the loan agreements with the US AID, the company approached for its approval for payment of dividend on preference shares but the former declined to give approval. During the year, the company issued bonus shares on a one-for-five basis. Negotiations with AID for re-scheduling repayments of the loans have started. During the first half of 1970-71, the company's production was disturbed as a result of agitation, go-slow and intermittent stoppages of work.

HINDUSTAN TRACTORS complains that the revised prices for tractors notified by government in September last are "completely arbitrary", as they include flat marginal increases ranging between 1.5 and 2.5 per cent only on prices fixed in 1968 on the basis of costs of 1966, while prices of steel, pig iron and all raw materials, standard and proprietary items have increased from 25 per cent to 50 per cent since 1966. The company's production fell sharply and the Union Government appointed a high-level commission which, according to the directors, has recommended that either the price control be scrapped forthwith or prices of the company's tractors be upgraded and fixed on a par with those of other tractors in the same horsepower range. It is pointed out that price of Massey-Ferguson 35 HP tractor is fixed at Rs 24,190 while that of the company's tractor in the same horsepower range is only Rs 17,470. During its 25th year ended March last, HTL produced more disappointing results than in the year before with a sharp fall in turnover and a much bigger deficit. The accumulated deficit mounted up to Rs 99 lakhs to stand against the share capital of Rs one crore. Arrears of preference dividends amount to Rs 3 lakhs. With the substantial depletion of the working capital and reserves, procurement of components was affected and the company could not maintain the normal rate of production. Owing to financial stringency it could not meet payments for the imported components when they became due. Workers of certain sections of the factory had also to be laid off. Efforts are being made to secure additional finance from bankers to restore and increase production.

The Week's Companies (Rs in Lakhs)

	Brooke Bond		Hindustan Motors		Hindustan Tractors	
	Latest Year 26-6-71	Last Year 30-6 70	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 31-3-71	Last Year 31-3-70
Paid-up capital	670	670	1568	1349	100	100
Reserves	825	759	971	1211	30	32
Borrowings	500	105	3347	3344	479	251
of which Term borrowings	—	—	1822	1991	28	28
Gross fixed assets	687	616	6959	6754	227	228
Net fixed assets	443	413	4296	4471	211	217
Investments	3	4	45	45	—	—
Current liabilities	997	1279	1192	1027	215	468
Current assets	2546	2396	2738	2415	544	628
Stocks	2066	2063	2025	1833	378	448
Book debts	161	120	613	471	125	133
Net sales	9357	8515	5461	4809	264	416
Other income	70	41	32	35	3	4
Raw material costs	5653	5063	2654	2429	236	346
Wages	788	742	722	665	34	37
Interest	42	10	262	231	37	18
Gross profit(+)/loss(—)	511	560	384	421	—57	—22
Depreciation provision	39	35	381	377	10	10
Tax provision	271	315	—	—	—	—
Net profit(+)/loss(—)	201	210	3	44	—67	—32
Development rebate provision	5	5	—	—	—	—
Transfer to reserves	62	71	3	20	—	—
Dividend			E-Nil	E-Nil		
Amount	134	134	P-Nil	P 23	—	—
Rate (per cent)	20	20	—	P 9.3	—	—
Cover (times)	1.46	1.53	—	—	—	—
Ratios (per cent)						
Gross profit/sales	5.46	6.57	7.03	8.75	—	—
Net profit/capital employed	10.07	13.69	—	0.74	—	—
Inventories/sales	22.08	24.23	37.08	38.12	143.18	107.69
Wages/sales	8.42	8.71	13.22	13.83	12.87	8.89

NEW DELHI

Alibi for Inaction

THE results of Yojana Bhavan's much-publicised and protracted exercises to reappraise the Fourth Plan had become outdated by the time they were concluded. The 14-day war and its aftermath had rendered them of little value as guides to action. Of the two bulky documents prepared by the Planning Commission, only one, dealing with plan performance in the first two years of the plan period (mainly an arithmetical exercise giving Fourth Plan targets and what had been achieved in relation to them), could therefore be placed before the two Houses of Parliament. The second document, which had attempted to outline the outlook for the remaining period of the Plan and could have been regarded as a basis for decision making and plan implementation in the coming two years, was withdrawn. It had not taken account of the new factors in the situation created by the war. Naturally, Parliament was not terribly excited by what had been presented to it by the Planning Minister; in the Upper House, Members did not even want the Minister of State for Planning to read the statement presenting the document since, they felt, it did not say anything worthwhile.

New Problems

Later, at a press conference, the Planning Minister listed the new problems that will have to be taken into account as a consequence of the war. These are the costs of the war, the requirements of defence after the war (including cost of replenishments of defence stores and equipment) and the suspension of foreign aid. In addition, account will have to be taken of the larger assistance which has had to be given to the states because of floods and other natural calamities during this year and the erosion of resources available for development because of increases in administrative expenditure in the form of higher DA and salaries to government employees to offset the rise in prices. Finally, there are the claims of Bangla Desh to Indian assistance for its rehabilitation and reconstruction. The Planning Minister suggested that it would take some more time to make an assessment of these factors and what they imply for the remaining period of the Fourth Plan. He thought that it might be possible for the Planning Commission to reorient the Fourth Plan by March next in the light of the new factors which had arisen. This time-table has been set out obviously with an eye to the coming state assembly elections which continue to claim much attention. The presentation of the central budget for the next year is also proposed to be put off for some weeks for the same reason. We are thus again back to yet another exercise at reappraising and reorienting — an endless process which has been going on for the last several years. Since the end of the Third Plan reappraisal of plans has become the primary activity of the Planning Commission even as plan implementation has become nobody's business.

Plan Holiday to Continue

Were the further reappraisal and reorientation of the Fourth Plan now proposed not an alibi for putting off decision-making and action, there was no need to put the conclusions of the review of the performance in the first two years of the Plan, as embodied in the Planning Commission's "outlook" document, in cold storage. It could have been made the basis for discussions with the Union Ministries as well as the state governments in preparation for the formulation of next year's budgets, even as the additional burdens and responsibilities posed by the war and its aftermath were studied in the coming months and the planning effort updated in their light. This is not what is proposed to be done. Decision-making and action are proposed to be put off in the name of a fresh reappraisal of the Plan. As a result, whatever is done in the coming few months, including the framing of the Central and State budgets for next year, will be on the basis of *ad hoc* considerations. In other words, the plan holiday is to continue.

One result of this method of functioning can be seen in the Government's decision on the par value of the rupee after the recent realignment of par values of the world's major currencies. Even while so much is being said about promoting self-reliance and doing away with foreign aid, specially from the USA, the decision on the par value of the rupee was quite clearly coloured by the anxiety felt in the Finance and Foreign Trade Ministries about the country's trade and economic links with the USA and the other Western countries. The two Ministries succeeded in selling a further devaluation of the rupee to the political leadership, though devaluation itself is a dirty word in our political parlance. This was managed by carefully avoiding reference to the gold value of the rupee, which has been depreciated by the decision, and by making out that continuity with the existing situation was being maintained so far as the rupee's parity with the pound sterling was concerned and that the rupee had actually appreciated in relation to the dollar. However, the question of the gold value of the rupee will be difficult to avoid after the devaluation of the dollar is formalised by the US Congress and the IMF takes cognisance of this. This will happen in a few weeks and India will then have to post with the IMF the gold value of the rupee. The devaluation of the rupee will then have to be clearly admitted.

Self-Reliance and All That

It also needs to be asked whether the talk of promoting self-reliance and reducing sharply the dependence on foreign aid — themes which the Prime Minister emphasised so much in her address to the Planning Commission last week — really has any substance in it. There is the experience of the aftermath of the 1965 war with Pakistan when also, after aid suspension by the USA, much was said about the importance of self-reliance. But it did not take long for the government to slip back into old habits of aid-seeking. If the proposed reorientation of the Fourth Plan is intended to reduce the foreign aid element in the plan and to step up mobilisation of domestic resources, it will be most welcome. But the analysis of the mid-term appraisal casts serious doubt on the seriousness of the government's intentions in this regard. The mid-term appraisal shows a yawning gap in mobilisation of domestic resources; on the other hand, a larger aid inflow is assumed than was envisaged in the Fourth Plan.

To achieve the physical targets of the Plan, as additional resource mobilisation of Rs 1,300 crores, compared to what was set down in the Plan's

resources scheme, will be necessary. This does not take into account other factors such as the low efficiency with which Plan projects are being implemented and the delays in their execution which, together with the rise in prices, raise the cost of projects and programmes well above the original estimates. Even this staggering estimate of additional resources required does not take into account fully the erosion of resources on account of increases in non-plan, administrative expenditure. If, in addition, provision is to be made for the new responsibilities arising from the war and its aftermath, which have been roughly reckoned by the Planning Minister to be of the order of Rs 1,500 crores, the total additional resources required to be mobilised in the remaining two years of the Fourth Plan would amount to as much as Rs 3,000 crores.

It is going to take a great deal of courage to attempt to raise additional resources of this order. To do so will require not only a tax effort of considerable magnitude but also stringent curbs on consumption of various kinds and drastic regulation of production and of use of raw materials. On paper, the need for all these steps is granted by the planners and the government, but when it comes to action things are allowed to go on undisturbed.

Not Immutable

The estimates of foreign exchange requirements as given in the mid-term appraisal do not make pleasant reading. They suggest that requirements of aid will be larger than was originally estimated since the payments deficit is likely to go up steeply in the last three years of the plan compared to the first two years. This is because import requirements are expected to increase rapidly if the tempo of development picks up. Of course, these estimates are not immutable; the ingrained tendency in our bureaucracy and public sector managements, as well as in private industry, to regard foreign support as inescapable will have to be put down with a heavy hand and the policy of import liberalisation will have to give place to stringent constraints on imports and active promotion of import substitution. If this is not done with sufficient seriousness, requirements of foreign aid will rise, as the mid-term appraisal suggests, to an average of over Rs 1,100 crores per year compared to the Rs 800 crores or less per year available in the first three years of the Plan.

Assistance to Bangla Desh figures prominently among the factors which are considered as necessitating a further reappraisal of the Fourth Plan. But from whatever information is available, the figures commonly mentioned in this connection appear to have little basis. It has been suggested that as much as Rs 650 crores would be required — without clarifying the period of time over which this aid will be disbursed. On the other hand, one of the leading lights of the Bangla Desh government has mentioned a figure as high as Rs 2,000 crores. Actually, all these figures are speculative; those in the Government of India who have been charged with the responsibility are approaching the problem in more realistic and practical terms. A committee of three official economists, consisting P N Dhar from the Prime Minister's Secretariat, S Chakravarty from the Planning Commission and Ashok Mitra from the Finance Ministry, has been asked to work on this. Two members of the committee have already been to Dacca to hold discussions with the leaders of Bangla Desh.

Organisation of Currency

The committee's thinking on the problem of assisting Bangla Desh appears to be that the larger question of trade and economic co-operation on a long-term basis between India and Bangla Desh will have to await consideration till after the immediate tasks of restoring normal functioning of the economy have been tackled. Among the immediate problems to be faced are the organisation of Bangla Desh's currency system. After the liberation, both Pakistani and Indian currencies have been in circulation in Bangla Desh. The Bangla Desh government has now converted the State Bank of Pakistan, renamed the Bangla Desh Bank, into the country's central bank. The government has also accepted Pakistani currency notes and coins in circulation in Bangla Desh as legal tender till arrangements for issuing a new currency are made. The currency now in circulation will be gradually withdrawn and replaced by Bangla Desh's own currency. It is not proposed to fix the par value of the Bangla Desh currency for some time and it may be allowed to float till conditions stabilise. So far as exchange of goods and services between India and Bangla Desh is concerned, it can be arranged on a bilateral, non-convertible Indian rupee basis. Once the currency system of Bangla Desh is set up, it will greatly facilitate the supply of urgently needed goods and services to meet the current requirements of the population, including the returning refugees. India will be able to provide these supplies without much difficulty, except for edible oils. The supply of raw materials for industry in Bangla Desh too will not be difficult, except for cotton. It is expected that Bangla Desh's edible oil needs will be met through international relief arrangements, but cotton will pose difficulties because of the attitude of the USA.

Not as Formidable

The problem of rehabilitation and reconstruction of Bangla Desh is not as formidable as was earlier thought. Damage to the economy has been less than feared. Except for the refinery at Chittagong, most industrial establishments can resume working without much delay. While petroleum products will have to be supplied till the Chittagong refinery is back in operation, gas installations are in working condition and there will be no major problems in the running of the fertiliser and other plants. The jute mills have also escaped major damage. The main destruction has been in transportation; here considerable Indian help will be needed. Contrary to the popular impression, Bangla Desh will not need large numbers of Indian skilled personnel to run its industrial establishments and administrative services. These establishments and services were in the past run by the Bengalis themselves and there will be only some isolated gaps in availability of skilled personnel. There will thus be no need for any large-scale deputation of Indian personnel to Bangla Desh.

Meanwhile, border trade has already started between the two countries. But a distinction must be made between border trade in commodities of daily consumption which should be free and that in industrial raw materials. The purchase of raw jute by Calcutta interests must not be allowed in the name of free border trade. As a rule, the entry of private interests into trade between Bangla Desh and India should be discouraged. According to the thinking of the committee of experts, once trade through public agencies is actively encouraged, the gap in Bangla Desh's trade which India would have to bridge by extending easy credits may not turn out to be beyond this country's means.

SOUTH

Naxalites in Andhra

Mohit Sen

THE trial of the Nagi Reddy Naxalites drags on in Hyderabad. Almost completely unnoticed by the public in a small courthouse in Hyderabad — right in the proximity of one of the bigger private colleges — the defendants read out enormously lengthy statements. Upto now (Nagi Reddy is yet to make his statement) these statements are confined to simplistic propounding of Marxism seen from a Maoist angle. The whole thing appears as a ritual and an attempt to imitate the famous Meerut Conspiracy Case. But then it may be a little too cruel to apply to this attempt the famous aphorism of Marx about repetition in history.

In these long months of the trial there have been some moments of drama but these are far more like melodrama than tragedy. At one time the Naxalites threw chairs at one another and engaged in mutual denunciation even more vehement than their propaganda about the merit of the gun's barrel. At another time Nagi Reddy came out with a public statement on fasting to secure better jail conditions for himself and some of his near-colleagues in Visakhapatnam jail. Reformist action to secure a very partial demand!

But the most pitiful and even somewhat nauseating performance has been the attempt to justify the Maoist attitude to the liberation of Bangla Desh. The first point in this display of ideological desperation has been to attack the Government of India. The argument is that a neo-colonialist state which savagely suppresses its own people and which obeys the dictate of US imperialism cannot possibly be in favour of anything progressive. Therefore, the liberation struggle in Bangla Desh must be reactionary since it has the support of Indira Gandhi's government. This was the argument prior to the actual aggression by Pakistan in the first days of December. Prior to this event no effort was spared in ridiculing the struggle in Bangla Desh. What "heroism", it was asked, made ten million refugees run—why couldn't they fight? The Mukti Bahini, it was said, fights in the bars of Calcutta. And all this vituperation because Maoist China had set its face against the independence of Bangla Desh.

What was most interesting was that in all this outpouring of bile there was not a word of sympathy for the victims of the genocide in Bangla Desh. There was not a word against the Yahya regime and US imperialism also got off scot free. Such was the "revolutionary" character of these tirades.

Still more interesting was the attack on the Indo-Soviet Treaty. It was presented as a dramatic confirmation of the Maoist theory that the two "super powers", the Soviet Union and the US, had entered into an agreement for the joint exploitation of India! If all the signs of US annoyance proved the contrary so much the worse for proof. The argument did not stop there. It went on to state that the people of India had no illusions about the USA. But not all of them recognised the "dirty role" of the Soviet Union. And, hence, the main fire had to be directed against it. Thus, anti-Sovietism bound the Naxalites to the theorists of Right reaction like A D Gorwala and Minoo Masani who had organised a seminar to demonstrate the dangerous threat to India's independence posed by the Indo-Soviet Treaty.

Then came the Pakistani aggression and the advance of the Indian army into Bangla Desh to jointly liberate it in the company of the Mukti Bahini. Now the Andhra Naxalites decided on a change of front. Now the argument was that the Indian army had advanced into Bangla Desh to forestall the revolutionary war there. Now the argument was that the guerillas and the Mukti Bahini could and would have fought on and achieved their own liberation. But India had moved in as an instrument of "Soviet social-imperialism" to destroy this revolution.

In a vain attempt at bluster, the fact was sought to be hidden that joint action was being taken against the Indian army and the Mukti Bahini by the US Seventh Fleet, the Maoist troops in Kunming and the Yahya troops in both east and west. If the Maoists, had desired the indigenous development of the Bangla Desh revolution this was a most curious way of going about it.

This twisted logic and blind support of the shameful role played by the Maoists of Peking in the liberation struggle of Bangla Desh has severely hurt the remaining prestige of the Andhra Naxalites most of whom are trying to regroup under the banner of Nagi Reddy. Many who had not been taken in by the tactical line they had proposed had nevertheless some sympathy for what they termed the consistently revolutionary positions of the Naxalites. Now that this consistency has led to support of counter revolutionary butchery and connivance at the US imperialist intrusions, a great deal of this sympathy has evaporated. The ineffective have been found also to be vicious.

As for the Naxalite movement itself it has been largely obliterated as a movement. The debacle in Srikakulam has now had to be admitted and a great debate rages as to what was responsible for this debacle. It is here that the Nagi Reddy group seeks to push its line of the "creative application" of Mao Tse-tung Thought to the Indian conditions. According to it such creative applications requires the postponement of widespread armed action and the consequent prohibition of any attempt to establish armed bases, much less a people's liberation army. What has to be done is to utilise all forms of struggle — from hunger strikes, to strikes, to winning elections and also sporadic armed action. This has to be combined with the constant advocacy of armed action as ultimately the only possible form of revolution and armed action in the form of peasant guerilla action leading on to the creation of a people's liberation army.

It is this logic that explains the difference between Nagi Reddy using the court and utilising the services of lawyers, including those with declared "revisionist" views, and Nagabhushanam Patnaik refusing to appeal to the Supreme Court and refusing to speak in the Court.

Nagi Reddy's position would serve for some time as a halfway house for those who are now rather demoralised by the defeat of all their proud predictions. But this position lacks all consistency and would not satisfy those who have the courage to learn from mistakes. If the Srikakulam episode was a mistake then the entire Maoist line in India is a mistake and the moderate Maoism of Nagi Reddy is only a refuge for the demoralised and the intellectually dishonest.

And this is the reason why so many, especially those who had some mass contact in Srikakulam, have bypassed Nagi Reddy and returned to the path of revolutionary mass action. And that, too, is why self-styled sympathisers with the bleached bones of the weavers of yesteryear are so much upset and rush for relief to nineteenth century novelists!

CEYLON

Cracks in Coalition

Ananda Jayavira

THE uncertain calm that prevailed after the April uprising of the People's Liberation Front has been shattered by a political crisis in the United Front Government of Sirimavo Bandaranaike as well as an economic crisis of unprecedented magnitude. Faced with a deficit of over Rs 2,000 million the Government had decided on a 'package deal' of land reform, income ceiling and nationalisation on the one hand, and drastic cuts in welfare expenditure on the other. Bandaranaike was to announce a land ceiling of 50 acres per family and the nationalisation of several key industries in a pre-budget speech. The Minister of Finance, N M Perera, was then to propose the other more unpopular measures. But the right-wing elements in her party persuaded Bandaranaike that the announcement of a land ceiling would lead to immediate encroachment and squatting by villagers and the nationalisation measures were dropped in order not to annoy the Western aid-giving countries. The result was that on November 10, Bandaranaike made a vague 'throne speech' refraining from announcing anything concrete, and the next day, Perera, who was neatly outmanoeuvred, was left to announce the increases in the prices of rice, bread and flour, the rationing of sugar at two pounds a month per person, and charges for medical attention at government hospitals (previously free). The budget also placed a ceiling of Rs 2,000 on disposable incomes and a limitation on floor space of residential houses.

The announcement caused an uproar all over Ceylon. Crackers were lit by opponents of the Government, sit-down strikes and go-slows occurred in workplaces, the derailment of a train was attempted, angry crowds gathered at street corners and people protested openly in spite of the emergency regulations still in force. Feelings ran so high among the Government's parliamentary backbenchers that the cabinet was forced to announce a restoration of the old flour and bread prices and an increase in the sugar ration. The Left parties in the coalition were faced with the spectacle of a Trotskyist Minister of Finance (following World Bank advice), heaping burdens on the poor at the behest of the World Bank. Perera was also openly criticised by the rank and file of his own party. Since one of the minor items of the budget was an exemption of barbed wire from the present turnover tax, the Communist Party (Moscow) Sinhalese newspaper (which is critical of the Government) had the headline "Barbed Wire Cheap" — an oblique reference to the 16,000 political prisoners presently in jails. The bitterness on the Left is evident. The large trade unions allied to the Left parties in the coalition Government have expressed their hostility to the budget proposals and working-class discontent is increasing.

This sudden outburst has occurred against a background of emergency regulations which have stifled public opinion, imposed censorship, banned strikes, and deprived people of their basic civil liberties. After a period of army and police terror following the April uprising, when people were afraid to air any opinions, there has been an upsurge of public opinion against the emergency laws and against the continuance of Left parties in the coalition.

The April revolt by the young revolutionaries of Ceylon was crushed with unparalleled ferocity by the army and police and with the military assistance of a unique international brigade of Western, socialist and neighbouring Asian powers. Since this date Ceylon has had stringent emergency regulations and curfew for over six months and 16,000 persons (according to latest Government figures) are still in detention with no prospect of trial or release as yet. The Peking-wing Communist leader (M Sanmugadasan) is still in detention along with many other prominent political figures against whom the only charge is that they are a "security risk" There have been frequent revolts, shootings and deaths in the detention camps and prisons.

The repression in Ceylon has been highlighted by the Kataragama outrage for which several army officers are now on trial for the public killing of a school girl alleged to be an insurgent. Amnesty International which has taken an interest in the Ceylon situation, sent a British peer, Avebury, to Ceylon in September to investigate the question of the detainees. The Government panicked and expelled him, thereby inviting much adverse publicity in Britain. There has also been a great deal of concern about the situation in Ceylon among Ceylonese abroad. Recently a Ceylon Committee was formed whose sponsors include Joan Robinson, Noam Chomsky, Rene Dumont, Claude Bourdet, Tamara Deutscher, Malcolm Caldwell, and several well known Ceylonese scholars living abroad, including E F C Ludowyk and Bhikku Rahula (former Vice-Chancellor of Vidyodaya University, which is now a detention camp).

The statement of the Ceylon Committee reads as follows:

"Under the emergency proclaimed in Ceylon in March 1971, there is a complete and absolute censorship of news pertaining to the uprising that took place on 4-5 April 1971. The information that trickles in through private correspondence and occasional visitors from Ceylon discloses a very serious situation where the youth have revolted against the apathy, lethargy and inefficiency of a government which they, the youth themselves, helped into power a year ago. This revolt appears to have been ruthlessly crushed by the United Front Government by the use of the police and the armed forces who were given unlimited powers, such as arrest without warrant, indefinite internment without trial, disposal of dead bodies without inquest, suspension of *habeas corpus* rights under the Common Law, etc. The atrocities widely reported to have been committed by the police and the armed forces cannot be brought to light under these conditions, nor can they be publicly criticised as long as the police and the armed forces still continue to exercise these unlimited powers.

"Public meetings are banned under the emergency laws, so that the people are left without any legitimate means of protest. We, as friends of the Ceylonese people, in sympathy with their socialist aspirations, in their struggle to free their country from capitalist and neo-colonial strangulation are desirous of publicising the true state of affairs prevailing in Ceylon in order to arouse world public opinion so that there shall be no further opportunity for brutalities by the police and the armed forces, and to ensure that there will be a fair trial for those now interned by the government authorities."

The aims of the Ceylon committee are:

To arouse world opinion about the situation prevailing in Ceylon.

To assist in the setting up of an independent Commission of Enquiry into the uprising in April and the months following and the atrocities said to have been committed by the police and/or by the armed forces.

To direct world attention to any forthcoming trials of the detainees in order to ensure that such trials will be fair, and to provide legal and other assistance where necessary.

To assist in the rehabilitation of families reduced to pauperism and to provide financial and other assistance to families whose breadwinners have been interned without trial.

To support all resistance to the suppression of political freedom in Ceylon.

In Ceylon itself, after a long silence, the demand for the restoration of civil liberties has gained momentum. The Youth League of the pro-Moscow Communist Party (which forms part of the United Front Government) came out with demands for the lifting of the emergency, for the appointment of a commission on police and army atrocities and the release of the Trotskyist MP and youth leader, Vasudeva Nananayakkara, and other Leftists being held in prison. This resolution was suppressed by the Communist Party which is fighting a battle within the party against a dissident faction of young members.

Many trade unions have also voiced demands for an ending of the emergency. One of the island's larger [CP (Moscow)] unions, the Public Service Workers Trade Union Federation (PSWTUF) has started a campaign to press for re-establishment of civil rule in Ceylon and the removal of restrictions on trade unions. For example the All-Ceylon Compositors Union which is allied to the PSWTUF, while making a list of twelve demands involving the cost of living, wages and trade union rights has also called upon the Soviet Union, China and all socialist countries to refrain from giving any type of military or economic aid to the Ceylon Government as long as emergency regulations continue and people are deprived of their democratic rights and as long as the Government fails to implement its electoral promises to nationalise banks, plantations, large companies and agency houses. The Ceylon Mercantile Union, led by dissident Trotskyist, Bala Tampoe, has courageously challenged the actions of the Government right from the start of the repression last April.

At a special meeting of Ceylonese lawyers in October, a resolution was passed calling upon the Government to restore civil rights and to immediately lift the emergency regulations. This has been followed by the establishment by some lawyers of a Missing Persons Bureau to trace the many thousands of persons who 'disappeared' during the April events.

However the most important recent move has been the formation of the Ceylon Civil Liberties Movement by well known liberals and Leftists. The aims of the organisation are the restoration of civil liberties with special emphasis on:

Freedom of expression and dissemination of information through public meetings and the press and other media.

The rights of persons taken into custody.

Revocation of the emergency regulation permitting the disposal of dead bodies without inquest or other legal requirements.

Restoration of full trade union rights and other rights of employees in both the public and private sectors.

The investigation of alleged cases of injustice or hardship in order to seek redress or give relief where appropriate.

The Chairman of the Movement is E R Saratchandra, Ceylon's most eminent dramatist, the Vice-Chairman is R K V Goonesekara, Principal of the Ceylon Law College, and the Secretary is one of the country's best known journalists and writers, Reggie Siriwardena. The professors and university lecturers in the Movement were sympathisers and supporters of the United Front Government at the last elections (Laksiri Jayasuriya, Gananath Cheyasekera, T Nadaraja, Ashley Halpe and Leslie Gunewardena, Gerald Pieris, Kumari Jayawardena and A J Gunewardena). Ceylon's leading film maker, Lester James Pieris, and the renowned artist, George Keyt, are also in the Civil Liberties Movement along with several bishops, Buddhist prelates, doctors (L C de Silva, Carlo Fonseka), lawyers (S Nadesan and Neville Samarakone) and trade unionists J A K Perera and Indika Gunewardene).

Now that public pressure is increasing in Ceylon and abroad on the civil liberties issue, it will be difficult for the Government, which claims to base its policies on the principles of democracy and socialism, to ignore the agitation. The fact that the agitation also comes from trade unions affiliated to political parties which are part of the Government, and the fact that some of Ceylon's leading intellectuals who support the Government have come out openly against it on the civil rights issue cannot be lightly dismissed by the authorities.

The economic and political crisis is acute and the Government is faced with a dilemma. It is unable to move Leftwards and implement drastic socialist changes. After all, Bandaranaike's party (SLFP) is not a revolutionary party, and moreover the CP (Moscow) and the Trotskyist LSSP have long since ceased even to talk of revolution. Nor can the Government impose further hardships on the poor and cut the social services without causing island-wide discontent and losing the support of the working-class, which stood by the Government during the April revolt. This poses the question whether there will be a shift to the Left in the country, with the emergence, perhaps, of a new Left political party, or will there be an assumption of power by a Right-wing UNP-SLFP group backed by the military? We have become accustomed in Ceylon to hearing that the "next few months are crucial". This time it may really prove true.

YUGOSLAVIA

Tito's New Troubles

K Krishna Moorthy

THE worst crisis in the fifty-year history of the Yugoslav Communist Party. With these words of exaggeration, the largest circulated evening newspaper of Belgrade began its editorial comment on the latest purges of top party leaders of Croatia.

Purge of Inner Leaders

In July 1966 President Tito settled accounts with his Serbian aide, Vice-President, security services chief and party deputy, Aleksander Rankovich, who was accused of plotting against the Marshal and of attempting to establish greater Servian chauvinistic control over the country. Serbia is the largest of the six component republics of Yugoslavia and Serbian monarchists dominated Yugoslavia after its formation at the end of the First World War. The communists under Tito's leadership set out to change the pattern of domination by one nationality. But the 1966 events and the current developments belie the oft-repeated Yugoslav claims of having found solutions to the nationality problems.

A sort of prosecutor-general heading the party committee investigating the charges against Rankovich in 1966 was the Croat leader, Miko Tripalo. Today it is Tripalo's turn to be purged at the age of 45. In March 1969 Tito had nominated Tripalo to the 14-member executive bureau of the party. In the middle of 1971, Tripalo was chosen by the Croat party as a member of the Presidential Council. Thus Tripalo was one of the few who was a member of the highest organs of both the party and the state apparatus.

Thrown out of the party leadership along with Tripalo were 48-year-old Savka Dabchevich-Kucar, president of the Croatian central committee who was earlier Croatian Republican Prime Minister and a much-loved professor of economics; Pero Pirker, secretary of the Croatian Party Executive Committee;

Marko Kopartla, a member of the executive committee; Srecko Biyelich, president of the Zagreb City Party Conference; and Ivan Sibl of the Croat veterans' organisation. The charge against these inner leaders of the Croatian Party was that of tolerance of Croat nationalism and chauvinism which made it possible for counter-revolutionary forces to thrive and endanger the very existence of the Yugoslav state.

Tripalo and Savka had for some years been riding high as Croat populists and standard-bearers of the Yugoslav brand of liberalism which gained momentum with the purge of Rankovich in 1966, after the economic reforms of 1965. The constitutional reforms pushed through at Tito's instance in the middle of this year aimed at greater decentralisation. The pressures of Croat nationalists have now evidently taken centrifugal, disruptionary trends too far for the comfort of the Federal Government and Tito. Under the reforms of last summer, the Federal Government had been deprived of most of its powers, much against the wishes of several Serbian leaders and army generals.

The Croats and the Serbs speak the same language but write it in different scripts, the once Roman Catholic Croats using the Latin script. The Serbs were dominantly Orthodox Church followers. During the last war, a puppet fascist state was created by the Nazis in Croatia and thousands of Serbs were massacred. Tito was born a Croat, when the area was under Austro-Hungarian rule, and he is the only all-Yugoslav leader alive today who is accepted as being above petty nationality rivalries.

Turning Point

For several months it looked as if Tito was wholeheartedly backing the decentralisation and liberalisation trends spearheaded by the Croats, but he turned against the Croat leaders early in December after a widespread student strike towards the end of November threatened the administration. The students organised the strike to exert pressure on the federal leaders to reallocate the foreign currency pickings to the benefit of Croats who earn about a third of the country's total hard currency inflow.

A moderating role in Croatia has been played in the past few months by the veteran Vladimir Bakarich, the first Prime Minister of the Republic after the Communists took over at the end of the War. In the summer of 1969, the Slovenes had rebelled against central restrictions on economic expansion. The westernmost Republic of Slovenia is the richest in Yugoslavia on a per capita basis. During the current struggle against the federal centre on the issue of foreign currency allocations, the Croats could not take the Slovenes along with them and were thus isolated.

Bakarich also rallied the support of numerous Croatian party officials against Tripalo and Savka who were once his proteges. Bakarich himself has been a liberal in comparison with centralists like Rankovich but, as an active comrade in arms of Tito during the War, Bakarich has been more conscious of the imperatives in favour of the unity of the federal republic in the face of the chauvinism in his home republic.

Also ranged against Tripalo and Savka were veteran federal leaders of Croatian origin like former Prime Minister Mika Spilyak and former Deputy Supreme Commander General Ivan Gosnyak. Gosnyak had been disgraced by Tito soon after the Soviet invasion of Czechoslovakia, although the general had been one of Tito's closest associates for more than 25 years. Tito had used the military intelligence apparatus under Gen Gosnyak to get rid of Rankovich.

Gosnyak was among those retired generals who were attacked by Tito a few months ago for opposing the reform plans for decentralisation. In the middle of December, after the purge of the Croat leaders, Tito conferred with a group of army leaders, retired and in service. In his own way, Tito is reported to have admitted that the generals had been right.

It is perhaps valid now to speculate that the Yugoslav political pendulum will swing away from the policy of decentralisation. Some indication of Tito's new policies and possible administrative disciplinary measures will be available when the Yugoslav Communist Party Conference meets in the last week of January.

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The Impact of Bangla Desh

Sisir Gupta

THE two international aspects of the impact of the emergence of Bangla Desh on which it may be worthwhile to speculate are: (a) the possible effects of the restructuring of the subcontinent on intra-regional relations in South Asia and (b) the likely changes in great power attitudes and policies towards this region. Obviously, the effects of the structural changes in the subcontinent will be of utmost significance for the pattern of inter-state relations in South Asia. Even the worst pessimists will assume that India's relations with Bangla Desh will be much friendlier than what obtained between India and Pakistan. Even if the two countries decide to ignore the dictates of geography and of their economic needs and to refrain from having a special relationship with each other, Bangla Desh cannot possibly ever develop the kind of obsession with India that Pakistan had displayed in the past. Its nationalism is bound to be modern and self-contained; unlike Pakistan it will not base its claim to nationhood on the fantasy of Indo-Islamic identity nor will it have to refer to India in negative terms every time that it wants to establish a rationale for its separate existence. Therefore, the worst that could happen between India and Bangla Desh is that each would have, in relation to the other, the normal problems of conducting relations with a neighbour.

Mutual Goodwill

But there are many reasons why one could legitimately hope that India and Bangla Desh will achieve a high level of co-operation and friendliness in their relations. In the first place the history of the freedom struggle of the people of Bangla Desh will be the most dominant feature of the frame of reference of the foreign policy makers in Dacca. So great has been the Indian contribution to the achievement of their freedom that the people of Bangla Desh are likely to view this country and its leadership as their genuine friends. This immense fund of goodwill for India cannot be easily exhausted and New Delhi will have to show a very high capacity to mishandle this relationship to be hated in Dacca.

Secondly, there is a similar fund of goodwill for Bangla Desh within India. The people of this country have viewed with great admiration the courage and determination with which the East Bengalis had fought for their freedom, even when the odds were heavily against them. Indians also have by now developed the feeling that in asserting their own legitimate political right of national self-determination the people of Bangla Desh have helped to resolve the extremely difficult foreign policy problems that the continuance of a united Pakistan could pose for India. That the political movement in Bangla Desh had in the course of its evolution developed a firm commitment to the values of secularism, democracy and socialism further deepened Indian sympathy for this new nation. It will take a lot of irrational behaviour on the part of the leaders of Bangla Desh before India's goodwill for them is dissipated.

Thirdly, the needs of social and economic reconstruction of Bangla Desh are such that they will have to look to India for various kinds of assistance in this formative phase of their history. In fact, the main problem of India-Bangla Desh relations today is not that the latter may have mental reservations in accepting Indian assistance but that the former may be physically incapable of living up to the expectations from it. Finally, Bangla Desh and India may have to co-operate with each other in the political sphere in order to secure international recognition for the new state and to withstand the various kinds of pressures that malevolent external powers are likely to exert to deny to them the benefits that they hope to derive from the recent events in the subcontinent.

For all these reasons it is not over-optimistic to anticipate the creation of a new pattern of friendly, co-operative and good-neighbourly relations between India and Bangla Desh. Should the leaders in New Delhi and Dacca be able to achieve a high level of accord between them this relationship could hopefully act as a model for the rebuilding of other relationships in this region.

It is true that some of the hopes of creating new patterns of intra-regional relations may still be dashed by the determination of the Government of what is left of Pakistan to pursue their old policies and persist with their orthodox attitudes towards India. There is much in Bhutto's past to create the fear that his pseudo-radical internal stance is primarily meant to legitimise the continuation of the old anti-Indian attitudes in the wake of the traumatic experience of a massive defeat on the battlefield. But he might still reverse the country's foreign policy course. If he succeeds in turning the searchlight inward and in redefining Pakistan's priorities he may well proceed from there to strive to create an entirely different scheme of foreign relations for Pakistan. At any rate it would be impossible for him to maintain the kind of war effort that united Pakistan had been able to sustain. Sheer paucity of resources may force him to change his attitude towards India.

It is equally unlikely that either Bhutto or the people of Pakistan will ever be happy in belonging to any West Asian political grouping. The people of Pakistan are far too modern and they have far too many links with India to tag themselves on to any regional grouping in West Asia. If the political leaders of Pakistan try to link their country with an area where monarchs and dictators abound the common people of that country may well revolt again. And if they do, Bhutto will also be thrown into the dustbin of history like many of his predecessors.

Worthwhile to Wait

It is for these reasons that one need not rush to the conclusion that the Bhutto experiment in West Pakistan is bound to prove negative in content. In any case it is worthwhile for India to wait and watch the situation and help Bhutto to change himself by adopting a friendly posture towards West Pakistan as well. If he does not show any inclination to do so, India will have to wait for the time when the free play of internal political forces in West Pakistan throws up a different kind of leadership that shares with the leaders of India and Bangla Desh the desire to reshape the pattern of inter-state relations in the subcontinent. Meanwhile, New Delhi and Dacca could concentrate on the task of making a success of their efforts to lay down the foundations of long-lasting friendship between the two largest states of this region.

Whether the countries of South Asia will succeed in elevating their relations to a higher and more purposeful level will at least partly depend on the atti-

tudes and policies of influential external powers. It is obvious that the recent events have changed the equation among the great powers in this region. The achievement of freedom by Bangla Desh represents a significant success for the Soviet Union and an equally significant reverse for China and the United States. It is now widely believed that India may not have succeeded in bringing the conflict of December 1971 to a successful end without the Treaty of Peace, Friendship and Co-operation that it signed with the Soviet Union in August. This itself gives a great boost to the Soviet position in this region. By proving that it can be a dependable friend in times of need, Moscow may have created new attractions for the third world states to cultivate special relationships with it.

This, however, is a relatively insignificant gain for the Soviet Union compared with the other advantages it can now derive from the changes in the political map of this subcontinent. The very fact that it constitutes a major foreign policy reverse for China and the United States is a matter of great importance for the Soviet Union. That China and America together should be unable to assert themselves in a crisis situation may underline to both Peking and Washington the futility of pursuing further their joint anti-Soviet objectives.

Coming so soon after the first attempt to achieve a Sino-American *entente,* the independence of Bangla Desh and the breakdown of Pakistan may become an event of global implications. The other long-term gain of the Soviet Union is that almost the entire subcontinent is now freed from such Chinese and American influence as might have prevented the growth of economic and political co-operation in the region which has been advocated by Moscow for quite some time.

It is well known that the then Government of Pakistan had refused to consider the collective security idea propounded by Brezhnev in 1969. Now a situation has been created where, if Soviet-Indian relations are not mishandled, some of those ideas may well find institutional expression. Whether the Soviet Union is still interested in creating a benign security system in this region remains to be seen. But that it would be interested in cultivating the friendliest possible relations with Bangla Desh and other neighbours of India is obvious.

The Indo-Soviet Treaty could also project the two countries as powerful factors in the affairs of South-East Asia. Bangla Desh itself is for many purpose a South-East Asian state. And if relations in South Asia can be reconstructed and a structure of peace and stability erected here, this itself will go a long way in providing a great deal of leverage to the states of South-East Asia in dealing with the new situation created by the Sino-American *entente.*

How could China and America readjust their policies to suit the needs of this new situation? It is clear that the South Asia policies of both Peking and Washington are in shambles. Neither of them can hope to re-establish the unity of Pakistan and neither can ignore the fact that India has emerged as the most effective power in this region.

For the Chinese the options are clear. Peking could either decide to accept the new reality and try to come to terms with India on the basis of the 1954 model of Sino-Indian relations or try to turn Bangla Desh and Pakistan individually into anti-Indian states in order to deny to both India and the Soviet Union the full benefits of recent events. It appears from Chou En-lai's recent utterances that Peking has in fact opted for the second course. It will find no difficulty in blessing Bhutto's pseudo-radical measures as progressive and telling the people of Bangla Desh that while their urge for freedom may have been legitimate, the struggle for it will not be complete till the new state has been able to achieve a social revolution which brings into power anti-Indian and anti-Soviet elements.

Many China specialists have for long assured us that China's real intention is to enable India to emerge as an independent centre of power and that if that independence is real, China will go a long way to be friendly towards India. Whether they are right will be proved in the coming months. If China's real obsession is with India, it would certainly tread the path that Chou En-lai seems to have laid down already. If, on the other hand, they are interested in the independence of India, they could do worse than revise their policies, tap the latent goodwill for them in this country and offer their hand of friendship to New Delhi.

As for Washington, much will depend on the results of the forthcoming presidential elections. Nixon's political opponents have already made a major issue out of the American debacle in South Asia. Should they be able to defeat him in the 1972 elections, they may easily reverse the course of American foreign policy in South Asia and decide to promote American interests through quiet support to India.

This, however, is only one of the many possibilities. Unlike China and the Soviet Union, the United States has few autonomous interests in South Asia. Its policies here have for long been the reflection of its global policies, though the containment of India seems to have been one of the primary tasks of American diplomacy in southern Asia. It is not impossible that the supreme American interest here now is to make the Soviet Union and China conduct their rivalries without let or hindrance. Should America remain preoccupied with the goal of intensifying the Sino-Soviet conflict in Asia, it will certainly try to coordinate its policies with those of China which is at the moment very much the weaker party in the Sino-Soviet contest. In that event, further evidence of American hostility towards India will pile up and India may have to prepare itself to meet new challenges on the international scene.

In brief, it is not impossible that the emergence of Bangla Desh will mean new and healthy approaches to this region on the part of China and America. What is likely, however, is that there will be an intensification of great power contests in this region and old goals will be pursued in the garb of new policies. The liberation of Bangla Desh is a breakthrough for India's foreign policy but it will be too complacent a view to regard it as the final act of the drama of South Asian politics.

Gramophone Company of India

GRAMOPHONE Company of India is to issue 1,50,000 equity shares of Rs 10 each for cash at a premium of Rs 8 per share (payable in full). Out of this, 37,500 equity shares will be offered, in the first instance, as rights shares to members of the company; 15,000 shares will be reserved for subscription by employees, and the balance 97,500 will be offered for subscription to the Indian public by prospectus. The present issue of shares will raise the participation of the Indian public in the capital of the company to 40 per cent.

The Gramophone Company is a subsidiary of the EMI group of companies — the oldest and largest recording organisation in the world and international leaders in electronics, records, and entertainment. The Indian company's operations began in 1901 and a record manufacturing plant was set up in 1907. In 1968, the company went public when 1,50,000 equity shares were offered to the Indian public.

New Expertise

Nireekshak

PERHAPS the only topic of newspaper comment in the last few days which did not have any bearing on the war was the devaluation of the US dollar—the "fall of the mighty", as *Tribune* put it. Two other subjects which interested editorial writers were: the award of the Bharat Ratna to Indira Gandhi ("rare jewel"; was *Indian Express's* not very original comment), and the decision, first to postpone ("inevitable postponement", according to *Free Press Journal*) and then to hold as originally scheduled, the elections to the state assemblies.

However, one branch of journalism which may be said to have flowered in this war is military commentary, not by professional journalists but by professional soldiers, all retired. Military correspondents are relatively new entrants into Indian journalism and figure even now in the columns of only a few of the wealthier newspapers. It also seems unlikely that their numbers will increase very greatly or very rapidly in the future. They came into their own during this war, and their daily commentaries on the military situation on the front have undoubtedly commanded much reader interest. One or two newspapers which did not have any regular military correspondents hurriedly recruited this special talent for the duration, while the rest—the majority—contented themselves with relaying the military expertise of their special correspondents.

The expertise of the 'civilian' correspondents, it was transparent, was an acquisition on short loan from the military brass who briefed them in the capital. Nevertheless, they weaved interesting patterns for their readers. The 'civilians' were, of course, on surer ground when, donning the garb of war correspondents, they reported the battle as they saw it waged from the trenches and the bases on the front line—spiced occasionally by reports of conversations with soldiers. Having had occasion before to criticise the quality of 'frontline' despatches, I am glad to be able to record that the 'war correspondents'—a total of 269 Indians, besides the foreigners who had been so accredited—have acquitted themselves quite creditably indeed.

The final assessment of the war, by both categories of civilian and military correspondents, has thrown up certain interesting conclusions. "The firm and confident political handling of the situation by Mrs Gandhi and her government" was cited by Major-General D K Palit (Retired), as an important factor contributing to victory. This, he said, writing in *Hindustan Times,* was "matched by the sophisticated management, direction and leadership of the armed forces". From past experience, "it had come to be accepted that we would always be found unprepared, or not fully prepared, [and that] we would always be surprised by the enemy". However, General Palit noted, "from the strategic discomfiture of last summer—when an army organised and deployed for a two-front war suddenly found itself faced with a three-front confrontation—the Indian Army managed to regroup and re-plan to a position of strategic confidence whence it was able both to fight a defensive war in the west and, in the east, to launch one of the most decisive campaigns conducted since the end of the Second World War". This was made possible by "the full measure of co-operation and confidence at all levels throughout the forces". Bickering among top commanders which, he noted, was a feature of the last war were totally absent this time. And "it can justifiably be said that the new generation of Chiefs (for the first time all Indian-trained) has brought the Indian military to maturity".

Writing "purely from a military point of view", in *Statesman,* Lt-General Harbaksh Singh (Retired) claimed it was "inevitable" that the "Pakistan war machine" should have been "brought to a standstill in 12 days". However, he questioned some of the tactics employed in the campaign in Bangla Desh. "We failed to take advantage of faulty deployment on the part of Pakistan. Our first and foremost objective should have been Dacca, and we should have made for it in full strength and with the utmost speed." Indian forces, he thought, could have captured intact the Ashuganj bridge and could have also dashed for the Goalundo Ghat ferry from the other direction. "In this manner our objective could have been realised with comparatively little loss of life and material." However, he added shrewdly, "I am sure there must have been political reasons for our armed forces to comb the whole of Bangla Desh". Like every other commentator, General Singh said the Air Force had done "a wonderful job" while the Navy "has established its name and fame among the navies of the world".

According to Lt-General O P Dunn (Retired), "Pakistan's present military action against India is the result of a political miscalculation". In a review of the war in *Amrita Bazar Patrika,* he said: "It is obvious that Pakistan's pre-emptive and abortive operations . . were intended as a politically controlled escalation to force India to war and thereby evoke the sympathy of other countries. . . . It is possible that Pakistan was given some assurance in advance that USA and China would bring sufficient pressure to bear on India to compel it to accept a cease-fire, withdraw its troops and accept the presence of UN observers."

From the civilian point of view, G K Reddy of *Hindu* observed that "the decision-making machinery of the government at the cabinet and secretariat levels and the chain of command of the three services have functioned extraordinarily well this time, with excellent staff work at the Army, Navy, and Air Force Headquarters in Delhi." Unlike in earlier years, when "the excessive emphasis on the defensive nature of India's military preparedness tended to cramp the style of the three services and stymie their strategic projections", there was no room for ambiguity this time. The armed forces knew "they should be fully prepared to liberate Bangla Desh if Pakistan was bent on converting the freedom struggle of the East Bengal people into an Indo-Pakistan conflict". The political leadership, Reddy said, laid down the broad policy and "left it to the Service Chiefs to work out the details of how best to proceed with the task of matching the country's military preparedness with its policy pursuits." And this worked well because "the most important factor in the defence thinking and the higher direction of war", *viz,* the "human relationship between the political leadership and the service chiefs", turned up trumps in this war.

A writer in *Hindusthan Standard,* Nick Tomalin, who is a foreigner, said the Indian Army's thrust to Dacca ("an achievement in brutal, swift-moving warfare") was "highly reminiscent of the blitzkrieg across France in 1940". The strategy of the Indian Army — "speed, ferocity and flexibility" — as well as the mistakes of the Pakistan Army — "a Maginot line strategy" — were the same, he said.

Social Sciences and Organisation

R S Ganapathy

Management and the Social Sciences by Tom Lupton; Penguin Books; pp 140; 7sh.

THIS book was written originally in 1966 by Tom Lupton, Deputy Director at the Manchester Business School, at the instance of the British Administrative Staff College. Its main objectives were to provide an overview of the social science of organisations and to elaborate the practical value of the social sciences to managers. The book has achieved these objectives admirably; and now an enlarged and revised edition has been written to take account of the recent developments in theory and practice.

The author begins by describing the work of early social scientists in the field of management. Frederick Taylor and his school of scientific management, in the US in the early years of this century, developed the concepts of work study, payment by results, production control systems, etc. Taylor, however, saw organisations as disorderly aggregates of individuals, drilled into formal order and given formal structure by procedures of planning and control instituted by management. His ideas of motivation were primitive and he never understood the significance of groups in organisations. He thought adequate monetary rewards alone would be sufficient to induce the worker to produce more.

At about the same time, Max Weber in Germany studied large-scale organisations such as the civil service and the army. He found three elements which together constitute what he called 'bureaucracy': (1) fixed official duties, (2) rules about authority and coercion and (3) methodical provision for the fulfilment of duties and the exercise of rights. These bureaucracies are self-perpetuating, hierarchical, pyramidal, rational structures with greater authority and heavier responsibility at the top than at the bottom, and they tend to provide for continuity at the top by recruitment from the layers below.

Another research trend became prominent during and after the the First World War. British industrial psychologists focused on the effects of physical working conditions, selection procedures, relationship between men and machinery, etc, on the individual worker. These researches were the foundations of the now well known 'Ergonomics'. In the US, during the twenties and thirties, a real breakthrough was achieved by the Hawthorne experiments. For the first time, researchers found that attitudes, social relationships at work, and group behaviour, rather than the physical environment, were most important in determining productivity. During the forties, theorists on formal organisation, such as Fayol and Urwick, concerned themselves with rational and impersonal definition of tasks, distribution of authority, division of responsibility between line and staff, and span of control. They derived, from the experience of practical managers, principles of practical use to those who have to design and maintain organisations. By the early fifties, the centres of research in the area of the social science of management have shifted from practising managers to academicians in universities.

In Chapter 2, the author describes some classical studies in industry. These illustrate the methods and the research procedures of social science and the knowledge which is accumulating about industrial organisations as social systems. A W Gouldner's study (1955) of a rural community in a gypsum factory reveals that any attempt to impose a formal bureaucratic system upon one whose relationships rest upon tradition, custom, and sentiment might be expected to generate resentment, opposition, and resistance—however rational those who impose the system see it to be. The research by C R Walker and R H Guest (1952) reports an investigation into the factors in assembly-line work which promote satisfaction or dissatisfaction with the job. This study revealed that jobs which are monotonous, repetitive, needing low skill, and providing little opportunities for social interaction were found irksome and unsatisfying even though job conditions, such as pay, security, etc, were very good. These two studies paved the way for job enlargement and job enrichment to enhance worker satisfaction and hence productivity. They also aided in the perception of the desirablity to search for alternative layouts, procedures, technology, and administrative measures, which balance economic, technical, and social satisfactions.

By the mid-fifties, among the researchers in the UK a major interest had developed in the impact of technology and technical change on organisational structures. In the Liverpool University study (Scott *et al*, 1956) of a steel plant and the Tavistock Institute's work in a coal mine (Trist *et al*, 1963) the findings were that introduction of radical technological changes affect the structure of occupations, the formal structuring of work relations, and the informal organisations. This would generate resistance and opposition to change. To avoid the resistance, the manager has to work out what consequences are likely to follow from one or another of the many alternatives and then to choose one which offers the best balance of economic, technological, and socio-psychological advantages.

Joan Woodward's work (1965) analysing the relationship between technology and organisational structure is one of the most exhaustive. Over 100 firms were studied of varying sizes, technology (unit, batch, mass production, process production etc), and products. It establishes that technology is a major determinant of the form of organisation —which is designed for its efficient exploitation. For example, in rapidly changing technologies, the structure would be organic, adaptive, and flexible; and in well-established technologies, the structure would be mechanical and comparatively stable. Woodward's findings have been very significant for further work in this area.

Chapter 3 considers more specifically what social science has to offer to the manager by referring to some practical problems. Industrial conflict (the most serious form of which is the strike) is the likely outcome of attempts to organise co-operation in situations of technical and economic complexity. It can manifest itself as structural conflict which is conflict for scarce resources of cash and for power to influence events; conflict arising from protest against boring, monotonous work; or a combination of these. Social sciences can tell the manager the likely effect of certain external conditions, such as location, technology, labour markets, and product markets in creating the conflicts. With this knowledge, the manager may design measures to create appropriate technical, social, and administrative mechanisms for the resolution of conflicts.

One way to prevent industrial conflicts is to provide opportunities for joint consultation and industrial participation. The committees set up for this purpose in industries provide opportunities for workers to participate in decisions, to develop a sense of ownership and satisfaction, and to promote industrial democracy. Action-research in many situations reveal that relationships in the firm could become much more harmonious and effective if the making of rules governing behaviour is done collectively by all employees. In this the example of Glacier Metal Company is notable in evolving systems comparable to the legislative and executive systems in government.

By the sixties, several American social scientists had begun to concentrate on styles of managerial behaviour or management systems. Leading among them are McGregor, Blake, Mouton, and Likert. Their thesis is basically that more democratic, participative, humane systems of management would result in improved organisational performance. This approach can be broadly termed 'psychological universalism' as the principles and procedures evolved apply to all individual-organisation relationships, regardless of the other characteristics of particular organisations such as size, technology, labour market, products, and the cultural milieu in which the organisation operates. There is little research evidence, however, to indicate that improvement in the style of managerial behaviour alone will improve organisational effectiveness.

Response to a Stimulus

From this impressive list of research findings, theories, and studies, how does the manager benefit when technical or administrative change is to be introduced? Such change is usually in response to a stimulus from the environment of the firm. Tom Lupton describes a practical method: Initially, the technical or administrative choice is made on economic grounds. Once this decision has been taken, it should be possible to start a similar search for organisational alternatives. The criteria for deciding among the organisational alternatives must be social and economic. The measure of its acceptability to the people affected by the change, is an important issue for consideration. Once each alternative is worked out in detail and steps specified by which they are to be implemented, the choice becomes easier. We should then be able to arrive at a diagnostic description of the resultant organisation as a system in equilibrium. Though this is easier said than done, such a method is far more feasible now than it was, say, 20 years ago, because of important research findings and development of tools for measurement of social factors. This method of Tom Lupton's broadly resembles the method of sequential decision theory in operations research, which has proved very effective.

The final chapter describes some recent developments in the theory of organisations and, examines their relevance for the practice of management. The theories so far described lack a common framework to encompass the different approaches and none of them lays emphasis on an important social process in organisations: Economic decision-making on price, costs, output budget, etc. Simon, Cyert, and March (1958, 1963) are the only researchers who have done some significant work in this area, analysing the influence of internal structure on the process of economic decision-making and the reciprocal effects of economic decisions on internal structures, relationships, and information flow.

A parallel development is the formulation of the systems theory of organisations by Rice and associates at the Tavistock Institute (1963). According to them, an organisational system consists of a set of sub-units, groups, and individuals, interrelated to and interdependent on one another. The 'system' entails the idea of a boundary, an everchanging environment, an equilibrating mechanisms. The organisational system as a result of human decisions and actions, takes inputs from the environment, converts them, and sends outputs back to the environment. This theory has an analogy in electrical engineering, where the concepts of systems, feedback loops, etc, were originally developed. The systems theory integrates the various social science findings.

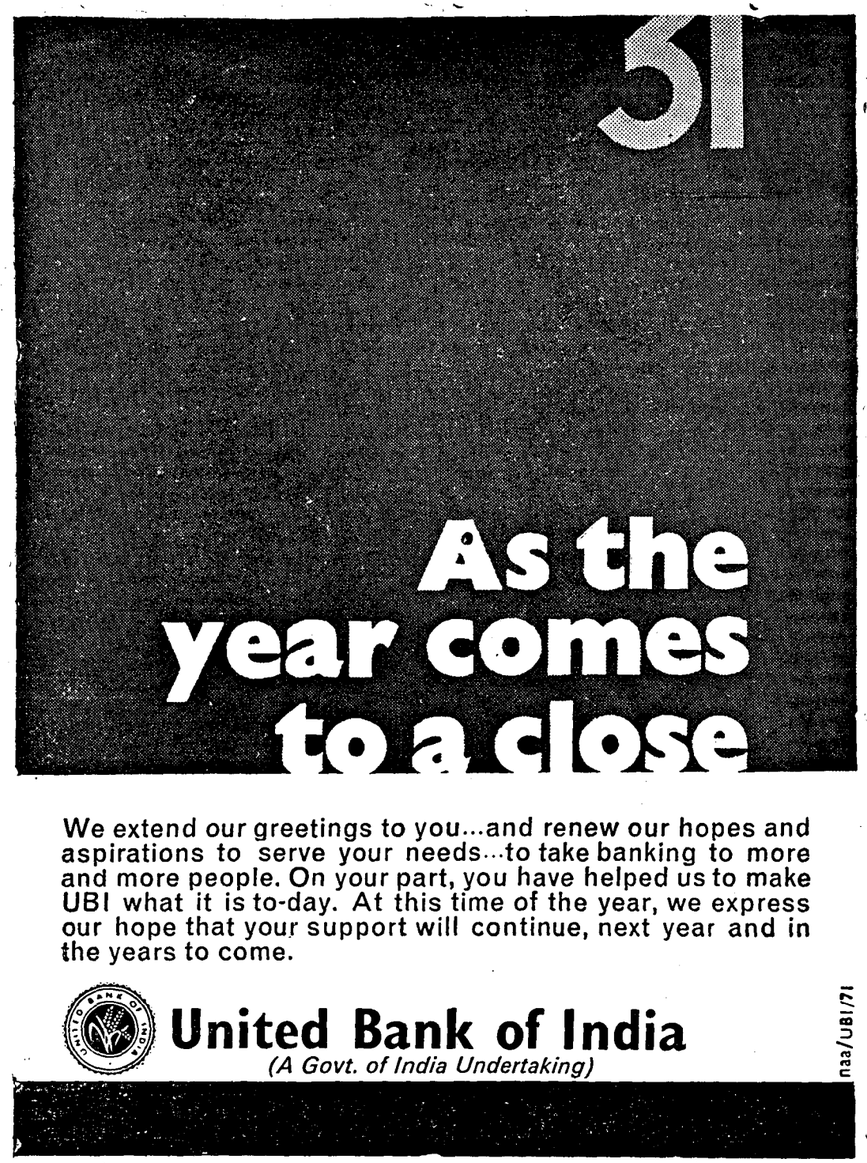
The work of Lawrence and Lorsch (1967) has been the most outstanding development of the 'open system perspective', and it eschews universal prescriptions. It reaffirms the philosophy that managers in each organisation have to find the best expedient which will best meet the particular environmental characteristics of size, technology, markets, etc. According to Lawrence and Lorsch, each organisation has broadly three segments: markets, R and D, and technology. The rate of change of the environment, action, and feedback from segment to segment in each organisation and from organisation to organisation, are different. This requires different ways of specialising in tasks and different mechanisms for co-ordination. The studies of Lawrence and Lorsch have opened up practical ways of designing reorganisation and of continuous monitoring of the relationship between organisation and environment in the search for high performance.

Relevance to India

The relevance to India of these newer theories of organisational behaviour deserves particular mention here. The adoption of intermediate technology, foreign collaboration, R and D policy, the protected market, the widespread labour unrest, the socio-political climate, the monopolies legislation, the absence of democratic and participative values in the cultural milieu because of abysmal poverty and rampant illiteracy—all these issues have significant impact on organisational effectiveness, whichever way it is measured. Unfortunately, research in the social science of management in this country is not concerned with these problems. In some quarters, there seems to be an undue emphasis on T-Group training or team development, without reference to the other variables in the organisation system. No work is being done here either on the optimum balance desirable between economic and technical efficiency and social satisfaction in designing organisations. It is hoped that priority to research in this area would soon be given in the country.

The conflict between structural relativism (of Lawrence, Lorsch, and others) and psychological universalism (of Likert, Blake, and McGregor), which the author visualises, does not seem to be realistic. Once we accept the systems approach to organisation analysis, 'managerial style' becomes one of the variables internal to the system—like technology, R and D, etc. The effects of a particular type of management system, on organisational effectiveness in the total-system context, can then be studied. If we adopt this approach, then democratic management systems will play a more useful and realistic role in the study of organisations, and the undue emphasis and universal prescription associated with it would disappear. A new integration would then become possible of all social science findings on organisations.

Tom Lupton's book is probably one of the few systematic comprehensive surveys of development in the social science of management. Its style is lucid, simple, thought-provoking, and logical. For readers interested in advanced work, a good bibliography is appended. For the practising manager and student, this book will be of immense value in developing operational strategies to deal with various managerial problems that attend continuous change.



Taxation of Property and Net Wealth in India

A Note

T N Krishnan

This paper attempts a study of some aspects of direct taxation in India and analyses in detail the steps for introduction of a comprehensive and broad-based tax on property and net wealth.

The analysis reveals the gaps in data on many aspects of wealth distribution. The study, therefore, devotes considerable space to the estimation of the various components of personal wealth and these by themselves throw important light on the economic structure and ownership pattern of wealth in the rural and urban sectors. Some of these aspects, no doubt, have profound implications for public economic policy. This study does not, however, elaborate these ramifications of the distribution of personal wealth.

The objective of this study is limited to making estimates of the yields from a property and net wealth tax. The study leads to the conclusion that the yield from such a tax can vary from Rs 220 crores to Rs 350 crores per annum with rates varying from 0.5 per cent to 5 per cent. Compared to these estimates, the present yield of less than Rs 15 crores per annum appears to be a ridiculously paltry sum.

[I must express deep appreciation to K N Raj, P G K Panikar and A Vaidyanathan, whose comments and suggestions contributed enormously to the development of the ideas of this paper. They are not, however, responsible for any faults that still remain in the paper. My thanks are due to N Gopalakrishnan Nair and G Ramachandran Nair of the Bureau of Economics and Statistics, Government of Kerala, and M K Sukumaran Nair and A V Jose of the Centre for Development Studies for computational assistance.]

AN efficient and equitable system of taxation in a growing economy must be sufficiently flexible and broad-based. Besides incorporating the principle of 'ability to pay' it should also include mechanisms to transfer resources to the government, corresponding, even though partially, to certain benefits accruing to individuals or households as a result of public expenditure on economic development (especially expenditure which generates substantial externalities). For instance, the commissioning of an irrigation project raising productivity in a given area often leads to higher land values and thus to an increase in the net worth of the owner of land. A similar effect on land values has taken place in certain parts of the country as a result of the introduction of high-yielding varieties of seeds. The process of industrialisation has likewise generated an upward movement in the prices of urban house property and of urban land values. Similar effects have taken place for other forms of assets including financial assets. There is a strong case for utilising this 'net worth effect' of economic development as a source of revenue for enhancing the tempo of development itself. This can be done only if a broad-based property and net wealth tax is introduced with relatively low rates but embracing a feasible maximum number of property and wealth holders.

This note is an attempt to estimate the likely yield from a property and net wealth tax taking into account the factors mentioned above. It may be recalled here that a recent Supreme Court of India judgment permits the Central Government to extend the net wealth tax to agricultural property also.

This note is divided into three sections. In the first section, the performance of the direct taxes in recent years is briefly reviewed. In the second section, an attempt is made to estimate the value of assets owned by the households and its distribution separately for the rural and urban sectors in 1961-62, since for this year some reliable basic data exist. In the course of this analysis it becomes abundantly clear that no serious attempt has been made so far to collect data on the distribution of private wealth and hence on the concentration of economic power. The first part of the third section is devoted to a rough estimation of net accretion to private wealth between 1961-62 and 1969-70 and also describes the price corrections to the value of assets necessary to bring them to 1969-70 prices. In the second part, the parameters of the wealth distribution function for the rural and urban sectors are derived and on their basis the number of households and the aggregate value of assets for different size of asset groups are estimated which provide the basic information for obtaining the tax yields.

I

The present system of direct taxation in India is largely built around the personal income and corporation taxes, supplemented by a net wealth tax designed to aid the social goal of reduction in inequalities in the distribution of income and of wealth. As a source of revenue, the personal income tax and the corporation tax are the important ones. Revenue from the personal income tax rose from Rs 73 crores in 1954-55 to Rs 190 crores in 1966-67, the annual rate of growth being 8.3 per cent. The income originating in non-agricultural sectors has risen at 7.25 per cent per annum during the same period, implying that the per capita tax-burden has probably slightly declined during this period. The per assessee tax expressed as a percentage of income assessed per assessee was 15.5 per cent in 1954-55 but fell to 13.2 per cent in 1966-67. It is seen that the tax burden of different income groups has also remained more or less the same during this period. Table 1 indicates the tax burden of the different income groups.

The growth potential of a tax is not

TABLE 1: INCOME ASSESSED AND TAX DEMANDED PER ASSESSEE FOR DIFFERENT GRADES OF INCOME

(in Rupees)

Grade of Income (1)	Income Assessed per Assessee (2)		Tax Demanded per Assessee (3)		(3) As a Percentage of (2) (4)	
	1954-55	1966-67	1954-55	1966-67	1954-55	1966-67
Below Rs 70,000	9596.0	9000.5	891.0	848.0	9.3	9.4
Rs70,001 - Rs 1,00,000	82209.5	82359.5	34439.8	35034.3	41.9	42.5
Above Rs 1,00,000	217200.9	210159.0	129571.0	128424.8	59.7	61.1
All	11003.2	9758.5	1711.2	1291.1	15.5	13.2

Source: Central Board of Revenue, Government of India, All-India Income-Tax Revenue Statistics.

TABLE 2: PERCENTAGE DISTRIBUTION OF INDIVIDUAL ASSESSEES, INCOME ASSESSED AND TAX DEMANDED ACCORDING TO RANGE OF INCOME, 1954-55 AND 1966-67

Range of Income	No of Assessees		Income Assessed		Tax Demanded	
	1954-55	1966-67	1954-55	1966-67	1954-55	1966-67
Below Rs 70,000	99.03	99.43	86.37	91.71	51.57	65.32
Rs 70,001 - Rs 1,00,000	0.45	0.31	3.38	2.59	9.10	8.33
Above Rs 1,00,000	0.52	0.26	10.25	5.70	39.33	26.35
All income groups	100.00	100.00	100.00	100.00	100.00	100.00

Source: All-India Income-Tax Revenue Statistics.

a function of the rates alone, but is very much dependent on the growth of the tax-base itself. The number of assessees paying income-tax was only 4.2 lakhs in 1954-55 but rose to 1.47 millions in 1966-67, the latest year for which figures are available. Thus, the number of persons paying income-tax is less than 0.8 per cent of the total working force or about 5.5 per cent of the urban working force. Of the total number of individual tax-payers in 1966-67, 51 per cent were salary earners and 31 per cent belonged to business and professions. The rate of growth of the number of individual assessees is very much dependent on the creation of employment opportunities in the economy. Thus, the mobilisation of resources through taxation and the creation of employment are interrelated.

In 1966-67, the total income assessed for individual tax-payers amounted to Rs 1,436 crores while the corresponding figure for 1954-55 was only Rs 469 crores. Thus, the tax-base in 1966-67 comprised only 5.7 per cent of the national income and if it is related to non-agricultural income, as it should be, it will cover only 11.8 per cent of that income. It is not even necessary to point out that the size of the tax-base for personal income taxes in relation to national income is very much larger in most developed countries where it forms not only an important source of revenue but also an effective instrument of fiscal policy to achieve desired distributional objectives.

If the objective of fiscal policy in in India is 'growth with social justice', then the reliance placed on personal income tax as an instrument to attain this goal appears to be both unrealistic and excessive. Judging from the income-tax returns of the number of persons and the amount of income assessed in the upper income groups, it becomes clear that income-tax by itself will not be sufficient to bring about any radical changes in the distribution of income. For instance, in 1954-55, the income assessed among individuals who received incomes over Rs 1 lakh amounted to Rs 48.1 crores and their number was 2,215, while the corresponding figures in 1960-61 were Rs 40.35 crores and 2,138. In 1963-64, the figures for this group of assessees were only Rs 45.6 crores and their number was only 2,253. However, in 1966-67, the income assessed and the number of individuals in this group had risen to Rs 81.9 crores and to 3,898 respectively. This sharp increase reflects the results of an intensive tax drive launched after 1963-64, as a result of the Emergency following the outbreak of hostilities with China. After 1963-64, there was also a sharp increase in the rates of taxation which, however, is not fully reflected in the statistics on tax burden.

There are a number of factors for the low elasticity of personal income taxation in India but this is not the place to go into the details.[1] Tax evasion has remained a perennial problem with the tax authorities and it has defied so far all attempts at a solution. Judging from the inelasticity of the taxes in the upper income groups, and taking into account all other evidence regarding the distribution of income, one may venture to suggest that tax evasion has risen during the past few years. It is also likely that high rates of taxation may have led to some substitution of low income-yielding assets for high income-yielding assets. The data presented in Table 2 relating to the percentage distribution of assessees, incomes and tax collected are revealing.

It is seen from the Table that 99.4 per cent of the assessees have incomes below Rs 70,000 and they contribute 65 per cent to the total tax collection. It is also found that the share of incomes assessed as well as tax collected from individuals above Rs 70,001 income has fallen. The annual compound rates of growth, between 1954-55 and 1966-67, of the income assessed and tax demanded for individuals with above Rs 1 lakh income are 4.5 per cent and 4.7 per cent per annum respectively. This indicates that the elasticity of tax collection in this range of income has remained static in spite of increases in the rates of tax applicable at this level of income. This also suggests that tax evasion is likely to be considerable in this income range.

Recognising the inadequacy of personal income taxation to achieve the revenue goals implicit in the planned development of India, Kaldor, in his report on "Indian Tax Reform", had recommended a package of taxes which was designed not only to increase the total tax yield but also to plugging the many loopholes that existed in the Indian tax system at that time. Kaldor's proposals included a tax on net wealth also. However, it was Gulati[2] who had first proposed a 'capital tax' to augment the resources available for investment. He estimated that it would have yielded between Rs 52-57 crores in 1953-54 (which was nearly as high as the amount collected through land revenue at that time). Kaldor estimated, using scanty information, an approximate amount of private wealth that would have yielded to the government about Rs 17.25 crores in 1954-55. While Gulati's calculations included wealth in the agricultural sector also, Kaldor's estimate excluded it.

The net wealth tax was first levied in India in 1957, with exemptions upto certain amounts of net wealth, on individuals, Hindu undivided families and corporations. Later, this tax on corporations has been withdrawn. The tax has been fetching less than Rs 10 crores in the mid-sixties. The reasons for the low yield from the net wealth tax are not altogether different from those indicated for the low yield of the personal income tax. First and foremost, the tax-base for the net wealth tax is quite slender; till 1971-72, a net wealth of Rs 1 lakh in the case of individuals and Rs 2 lakhs in the case of Hindu undivided families have been altogether exempted from net wealth tax. Besides, certain types of properties, such as agricultural property, properties belonging to charitable or religious trusts, personal effects, residential house of the assessee or one house, works of art, investments in approved financial assets are also exempted for the calculation of taxable net wealth. Further "Clause (XX) of section 5(1) exempts from wealth tax the value of shares held by the assessee in any company established with the object of carrying on an industrial undertaking in India, where such shares form part of the initial issue of equity share capital made by the company after 31-3-1964. The exemption is available for a period of 5 years commencing with the assessment year next following the date on which such company commences the operations for which it has been established."[3] To bring out the implications of all these exemptions on the yield of the net wealth tax, an imaginary example is worked out above.

MR K'S ASSETS AND LIABILITIES

			Rs
(1)	Ownership of house in Delhi		1,00,000
(2)	Cash on hand		5,000
(3)	Bank deposit		50,000
(4)	Annuity deposits (commuted value)		20,000
(5)	Household goods		8,000
(6)	Jewellery for personal use		20,000
(7)	Motor car for personal use		15,000
(8)	Investments in the initial issues of equity shares of companies formed after 31-3-1964		5,00,000
(9)	Equity shares of other Indian companies		90,000
(10)	Units in the Unit Trust of India		30,000
(11)	Business assets		2,50,000
(12)	Total of items (1) to (11)		10,88,000
(13)	Debts and outstanding income-tax payable		10,000
	Less item (13)		10,78,000
(14)	Less: Exemptions under section 5 of the Wealth Tax Act, 1957:		
	(a) Ownership of house in Delhi [section 5(1)(iv)]		1,00,000
	(b) Annuity deposits [section 5(3)(via)]		20,000
	(c) Household goods [section 5(1)(viii)]		8,000
	(d) Motor car for personal use [section 5(1)(viii)]		15,000
	(e) Equity shares of industrial companies [section 5(1)(xx)]		5,00,000
	(f) Financial assets approved for exemption as per section 5(1A) of the Wealth Tax Act, 1957		1,50,000
	[the total of the items eligible for this are:		
	Bank deposits	Rs 50,000	
	Equity shares of other Indian companies	Rs 90,000	
	Unit Trust of India	Rs 30,000	
	Total	Rs 1,70,000]	
	Total exemptions		7,93,000
(15)	Net Wealth		2,85,000
(16)	Less: Wealth tax liability on Rs 2,85,000 for the current assessment year		1,832
(17)	Net wealth liable to wealth tax at slab rates		2,83,169
	Rounded off in terms of section 44C		2,83,200
(18)	Wealth tax on the first Rs 1,00,000 of net wealth		Nil
	Wealth tax on the balance amount of Rs 1,83,200 net wealth at 1 per cent		1,832
	Wealth tax due and payable		1,832

Mr K, a citizen of India and resident had the above assets and liabilities on valuation date 31-3-1971 (assessment year 1971-72).

The above example is sufficient to bring out the reasons why the yield from the net wealth tax has remained uniformly below Rs 10 crores during the sixties. For the financial year 1965-66, the wealth tax yielded Rs 8.41 crores, the total number of assessees was 68,884 and the estimated value of total wealth owned by them amounted to Rs 1,960.22 crores.[4] Kaldor's rough estimate of the total yield from wealth tax for 1954-55 (i e, Rs 17.25 crores) assumed that the tax would be collected from 1.15 lakh assessees possessing a total wealth of Rs 3,694.7 crores.[5]

The approach of the government to net wealth tax is quite similar to its approach to personal income taxation. This fiscal philosophy translates itself into frequent increases in the rates of taxation while granting larger and still larger number of exemptions at the same time.

The latest budget document contains some new proposals for the net wealth tax. "Under the proposed rate schedule, wealth-tax will be chargeable on every rupee of the net wealth where the net wealth exceeds the exemption limit of Rs 1,00,000 in the case of an individual or Rs 2,00,000 in the case of a Hindu undivided family. Accordingly, wealth-tax will be chargeable on the first slab of Rs 5,00,000 of the net wealth at the rate of 1 per cent. The rates of wealth-tax in the next two slabs, i e, from Rs 5,00,001 to 10,00,000 and Rs 10,00,001 to 15,00,000 will continue at the existing rates of 2 per cent and 3 per cent. On net wealth in the slab over Rs 15,00,000 the rate of ordinary wealth-tax proposed in the Bill is 8 per cent, as against 4 per cent in the slab Rs 15,00,001 to 20,00,000 and 5 per cent on net wealth over Rs 20,00,00 under the existing law."[6]

Let us consider the implications of these proposals for Mr K, in our example, who owns a net wealth of Rs 10.78 lakhs. The net wealth tax due from him will be only Rs 1,832, because, his taxable net wealth amounts to Rs 1,83,200 only. Now, under the proposed bill, he will not get any initial exemption of Rs 1 lakh and he will therefore have to pay at the rate of 1 per cent for Rs 2,83,200. Still, his tax liability will only be Rs 2,832. On the other hand, suppose all the exemptions under section 5 of the Wealth Tax Act, 1957 are revoked and only an initial exemption of Rs 1 lakh in the case of the individual tax-payer is allowed, then, the tax due from our imaginary assessee will amount to Rs 14,560! It is evident therefore that the elasticity of tax yields with respect to tax rates is likely to be extremely small if a large number of exemptions continue to be given. In fact, in the light of the example worked out here, these rate increases appear meaningless and infructuous. Though the statutory rates of net wealth taxation has ranged from 0.25 to 3.0 per cent in recent years, the effective rate of taxation has been less than 0.5 per cent due to these exemptions. These figures are sufficient to bring out the implications of the net wealth tax on the distribution of wealth in India and they also indicate that, if the present structure of wealth taxation is retained, the additions to revenue from this source will continue to remain negligible.



The above analysis leads one to also suspect considerable avoidance of taxation of personal incomes and of wealth on account of the scope for such evasion provided by the numerous exemptions. However, this is not the place either to discuss the possible methods of such avoidance (or evasion) or to attempt an estimate of the amounts involved. Still it is worth mentioning that the exclusion of agricultural incomes from personal income tax and of agricultural property from net wealth tax, have made it possible to conceal incomes on which taxation has been avoided (or evaded) as incomes accruing from the agricultural sector.

There is still another consideration to which Kaldor had referred. "When the marginal rate of income-tax is 90 per cent, the net profit on any particular concealment is 900 per cent of the post-tax income. It is suggested that from every point of view it is far better to have a fool-proof system of taxation with a moderate rate schedule, than a system which has the appearance of high progressivity, but which cannot be effectively or impartially administered".[7] Sixteen years have elapsed since Kaldor sounded this warning, but the truth of this proposition has not found concrete recognition in the taxation proposals made since then.

An examination of the composition of personal assets in India shows that they are substantially different from those prevailing in developed countries. The attitude towards risk and uncertainty is very different in developing countries, compared to that in the developed, as there is a strong preference for real against financial assets. This is quite apparent from the data given in Table 3.

The real assets generally preferred are agricultural land, house property especially urban house property and precious metals in the form of jewellery or otherwise. In several cases, the annual yield from some of these real assets may be lower than those obtaining on financial assets. However, for some of these assets, like the supply of land which is almost inelastic, the annual rate of growth of the stock may also be lower compared to that of financial assets, leading to a slow and steady rise in their unit prices. When this capital appreciation is also taken into account, it may turn out that investment in real assets is even more attractive than in financial assets. In devising the net wealth tax in India, these basic facts have been ignored and the bulk of the real assets have been kept outside the purview of that tax.

TABLE 3 : COMPARISON OF THE COMPOSITION OF PERSONAL ASSETS, UK, USA, AND INDIA

(per cent)

	UK	USA	India	
			Rural Sector	Urban Sector
Physical assets	31.3	50.2	98.0	93.9
Financial assets	68.7	49.2	2.0	6.1
Total	100.00	100.00	100.0	100.0

Source : UK and USA, Jack Revell, "The Wealth of the Nation : The National Balance Sheet of the United Kingdom 1957-1961", Cambridge University Press, 1967, p 165, Table 7.7. India : "Rural Debt and Investment Survey"; *Reserve Bank of India Bulletin*, June 1965, Tables I and II for the rural sector' urban sector : the estimates obtained in this study.

As if these exemptions are not enough, various provisions have been made under which one's holdings of the bulk of the financial assets can also be exempted from net wealth taxation in India. It is no wonder, therefore, that the taxable wealth forms such a tiny proportion of total wealth and the yield is so low!

Any re-orientation of the Indian tax system[8] will have to take into account the following facts: (a) A widening of the tax-base. This implies, redefining taxable income and taxable wealth. Ideally, taxable income should include agricultural incomes, and taxable wealth should emphasise the importance of real assets and should include agricultural property. (b) Given the loose organisational structure of the economy, and the likely administrative problems in checking and cross-checking the information supplied, the incentives to avoidance and/or evasion should be reduced (following the lines suggested by Kaldor); the items on which tax is levied and the schedules of tax rates simplified (so that the assessment is made easier); and provision made for heavy penalties (as a deterrent to evasion). (c) In computing taxable income and wealth, currently a number of exemptions have been provided which not only narrow the size of the actual tax-base but possibly also provide loopholes to escape taxation. For the effective implementation of tax administration, it is necessary that these exemptions be removed and only an irreducible minimum be retained.

The present proposals relating to property and net wealth taxation have been worked out taking the above factors into account. This paper will not analyse the implications of including agricultural incomes in personal income taxation.[9] The various arguments in favour of a wealth tax are well known and there is no need to repeat them here. There are a number of peculiar features which make the property and net wealth tax particularly suited to a developing country. Apart from equity considerations, such a tax will make it possible to raise far more resources than personal income tax. First, the inclusion of real assets will make this tax a broad-based one. Second, the property tax as such has played an important role in the historical evolution of the tax structure. "In a discerning monograph entitled "A General Theory of Tax Structure Change During Economic Development", Harley Hinricks argues that there is a standard evolution of tax models, whether the observation be historical or a cross-section comparison of different countries at the same point of time. Early models stress direct taxes on property and land; later the emphasis turns to levies on international trade, then to internal excise taxes, and finally back again to the direct taxes, now featuring personal taxes on income and wealth. The factor of administration, says Hinricks, plays a large part in this pattern. Thus a reformer should not recommend graduated modern net income taxes for a large role in a relatively primitive economy; in practice they would probably turn out to be 'neither modern, nor progressive, nor even income taxes' ".[10] Third, a tax on property and net wealth as envisaged here, will show considerable buoyancy with respect to revenues. Apart from the contribution of the enhanced rate of growth of capital formation to the growth of net wealth, the very process of development, as mentioned earlier, contributes to the widening of the tax-base through a rise in the unit values of assets. The latter cause itself has been considered an adequate justification for property taxation. As Johansen states, "Real estate often increases in value for reasons associated with the expansion and growth of an urban community, the construction of new communications, etc. In such cases an increase in value may be said to have been caused by the social development in general, and to have no particular

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TABLE 4: DISTRIBUTION OF RURAL HOUSEHOLDS ACCORDING TO VALUE OF ASSETS, 1961-62

Asset Group	Cultivators		Non-Cultivators		All Rural Households	
	Percentage of Households	Aggregate Value of Assets (Rs crores)	Percentage of Households	Aggregate Value of Assets (Rs crores)	Percentage of Households	Aggregate Value of Assets (Rs crores)
Less than Rs 10,000	82.9	13,393.5 (39.7)	97.3	1,925.3 (62.6)	86.7	15,318.7 (41.6)
Rs 10,000-20,000	10.7	7,498.6 (22.2)	1.6	407.5 (13.2)	8.3	7,906.1 (21.4)
Rs 20,000 and above	6.4	12,885.6 (38.1)	1.1	746.0 (24.2)	5.0	13,631.6 (37.0)

Note: Figures in brackets are percentages.

connection with the owner's activity. It may then be considered reasonable to make this increase in value the object of a particular *form of* taxation. This sector has played an important role in various political movements in North America and Europe."[11] In a developing *economy, such* increases in the value of assets take place not only for property but also for other forms of assets. Since the net *wealth tax is* evaluated in current prices, this rise in values provides a built-in growth to the tax-base.

The bulk of the tangible assets in *India are held in* the form of real assets, i e, as land, buildings, residential houses etc. Some attempts have been made to estimate the value of tangible wealth in India,[12] but any information on the distribution of private or personal wealth among different classes of asset *holdings hardly* exists for the country. Even for a rough estimate of the yield from property and net wealth tax, it is necessary to have *some idea of the distribution* of personal wealth among the different asset groups.

An attempt is made in this paper to derive the *distribution of* personal wealth among various asset groups. Since no basis exists to derive it at the all-India level, asset distributions have been worked *out separately* for the rural and urban sectors and then aggregated to obtain the all-India personal wealth distribution.

II

(A) DISTRIBUTION OF ASSETS IN THE RURAL SECTOR

The all-India Rural Debt and Investment Survey, 1961-62 provides data on the distribution of rural households *according to* value of assets. "The value of total assets includes the value of (i) ownership rights in land, (ii) special rights in land, (iii) buildings, (iv) livestock, (v) implements, machinery, transport equipment, etc, (vi) durable household assets, (vii) dues receivable on loans advanced in cash and in kind, and (viii) specified items of financial assets, like National Plan Savings Certificates, Government Securities, shares and debentures of companies and co-operative institutions, deposits with banks and private money lenders, etc. Cash in hand, insurance policies, annuity certificates and chit funds, as also, stocks of commodities are not covered in the value of assets."[13] Data are available separately for cultivators and non-cultivators. The aggregate value of assets of cultivators and non-cultivators amounted to Rs 33,777.6 crores and Rs 3,078.8 crores respectively. Thus, 91.6 per cent of the total assets of all rural households belonged to cultivator households. The distribution of assets according to asset group does not provide any break-down of households having assets of over Rs 20,000. Table 4 summarises the details of the asset distribution according to the value of assets.

For the derivation of the distribution of private wealth in the rural sector, the asset break-down provided by the Reserve Bank Survey is wholly inadequate. From the point of view of wealth taxation, the information needed relates to the distribution of assets for the population who belong to the asset group of Rs 20,000 and above. However, this information is not provided in the Rural Debt and Investment Survey.

The Reserve Bank inquiry, however, provides data for cultivators as well as non-cultivators, on the value of assets itemised for different categories of assets. An examination of these figures shows that 83.4 per cent of the aggregate value of assets is accounted for by the value of land, buildings and other structures. Livestock and durable household assets comprise the bulk of the remaining assets. Since the value of land alone forms nearly two-thirds of the value of aggregate assets, it seems highly probable that the distribution of assets in the rural sector is probably closely linked to the distribution of land. If it is so, then the data on the distribution of land-owned can be used as a proxy to derive the distribution of wealth in this sector. The distribution of land-holdings for the year 1961-62 is obtained from the National Sample Survey and Table 5 summarises the results given there.[14]

A comparison of the figures in Tables 4 and 5, brings out clearly the close correlation between the distribution of assets and the distribution of area owned. At 1961-62, 40.5 per cent of the land has been owned by 86.5 per cent of the households and they comprised of holdings of below 10 acres. On the other hand, according to the Reserve Bank Survey, 41.6 per cent of the assets belonged to 86.7 per cent of the rural households with assets of less than Rs 10,000 per household. Similarly, 37 per cent of the aggregate value of assets was owned by the top 5 per cent of the rural households while the corresponding percentage of area owned by them was 35.9. Taking into account those close similarities in the distribution of assets and of land owned, we have derived the distribution of aggregate assets in the same proportions as the distribution of land owned. By adopting this procedure, it becomes possible to disaggregate the distribution of assets belonging to the asset group of Rs 20,000 and above.

The 1961-62 study of land holdings by the National Sample Survey, however, provides only five classes of holding sizes for owners of 20 acres and above, namely, 20-24.99, 25-29.99, 30-49.99 and 50 acres and above. An earlier inquiry on land holdings by the National Sample Survey[15] had provided further break-down by size for holdings of 50 acres and above. In that inquiry, the number of holdings as well as the number of owning households were given for holding sizes of 50-74.99 acres, 75-99.99 acres, 100-249.99 acres, 250-499.99 acres, and

TABLE 5: DISTRIBUTION OF RURAL HOUSEHOLDS ACCORDING TO AREA OWNED BY SIZE CLASS OF OWNERSHIP HOLDING

Size Class of Ownership Holding	Percentage of Households Owning Land	Percentage of Area Owned
Below 9.99 acres	86.5	40.5
10-19.99 acres	8.5	23.6
20 acres and above	5.0	35.9

500 acres and above. The distribution of land owned and of households for these holding sizes cannot, however, be combined directly with the 1961-62 distribution, for, the percentage of area owned by households owning over 50 acres of land has decreased from over 17 per cent in 1954-55 to 11 per cent in 1961-62. Therefore, 1954-55 distribution of land owned for each size has been adjusted for this fall in the percentage of total area owned by this group. If l_{it} represents the proportion of land owned by a sub-class i (of holding size of above 50 acres) and L_{it} and L_{it+1} ($L_t = \sum_{50}^{500+} l_{it}$) represent the proportions of total area owned by all households owning 50 acres and above in 1954-55 and in 1961-62 respectively, then l_{it+1}, proportion of land-owned in 1961-62 by sub-class i is derived as $l_{it+1} = \frac{l_{it}}{L_t} L_{t+1}$. This implies that the shape of the distribution remains the same during the two periods, but the change in the average area of land owned between the two periods has been incorporated in deriving the distribution of land holdings among these sub-classes of size holdings.

In the Debt and Investment Survey, only the percentages of households for the different asset groups have been provided and not the total number of households. However, the study gives — besides the aggregate value of assets — the average value of assets per household also. The total number of rural households has been estimated by employing the above information. The NSS Report has also estimated the number of rural households. It has been found that the number of households derived from the information given in the Debt and Investment Survey is close to the figure estimated by the NSS. Table 6 gives the details of the derivation of the distribution of assets from the distribution of land holdings.

The method employed above to derive the distribution of wealth, *viz*, by applying the proportions of land owned to aggregate wealth, is valid only if it provides the actual distribution of wealth in the rural sector. Unfortunately, it is not possible to compare the distribution so derived with any other derivation of the distribution of assets in the rural sector, since none exists. However, the NCAER Study on Rural Surveys[16] has provided the distribution of certain assets of rural households for each decile of households. To

TABLE 6: DISTRIBUTION OF ASSETS IN THE RURAL SECTOR AMONG THE DIFFERENT ASSET GROUPS, 1961-62

Size Class of Holding	Percentage of Households Owning Land	Percentage of Area Owned	Value of Assets (Rs crores)	Value of Assets per Household (Rs)
Below 10 acres	86.51	40.52	14,926.80	22,048
10-19.99 ,,	8.57	23.63	8,705.47	44,335
20-24.99 ,,	1.70	7.60	2,797.40	23,508
25-29.99 ,,	0.97	5.33	1,960.76	28,823
30-49.99 ,,	1.57	11.79	4,341.68	39,470
50-74.99 ,,	0.42	4.89	1,802.27	62,147
75-99.99 ,,	0.14	2.22	818.21	81,821
100-249.99 acres	0.11	3.17	1,168.34	1,46,050
250-499.99 ,,	0.01	0.63	232.19	2,32,190
500 acres and above	NA	0.21	77.39	NA

TABLE 7: DISTRIBUTION OF WEALTH HELD IN THE FORM OF OWNER-OCCUPIED HOUSES, 1961-62

Decile Group of Households	Average Current Market Value (Rs)	Aggregate Value (Rs crores)	Percentage Share in Aggregate Value
0-10	113	10.01	0.2
10-20	335	29.68	0.7
20-30	609	53.96	1.2
30-40	944	83.65	1.8
40-50	1,375	121.84	2.7
50-60	2,154	190.86	4.2
60-70	3,218	285.15	6.3
70-80	5,034	446.06	9.8
80-90	8,267	732.54	16.1
90-100	29,207	2,588.04	57.0
All classes	5,131	4,541.81	100.0

check the accuracy of the procedure adopted here, the distribution of the same items of assets were derived for comparison with the distribution provided by the NCAER Study. In the NCAER Study some of the major items of household assets, the values of land and livestock, have been left out. So, the value of these items were excluded in order to derive a distribution of assets which will be comparable to the one given in the NCAER study. To derive the distribution of these assets, the following method was adopted.

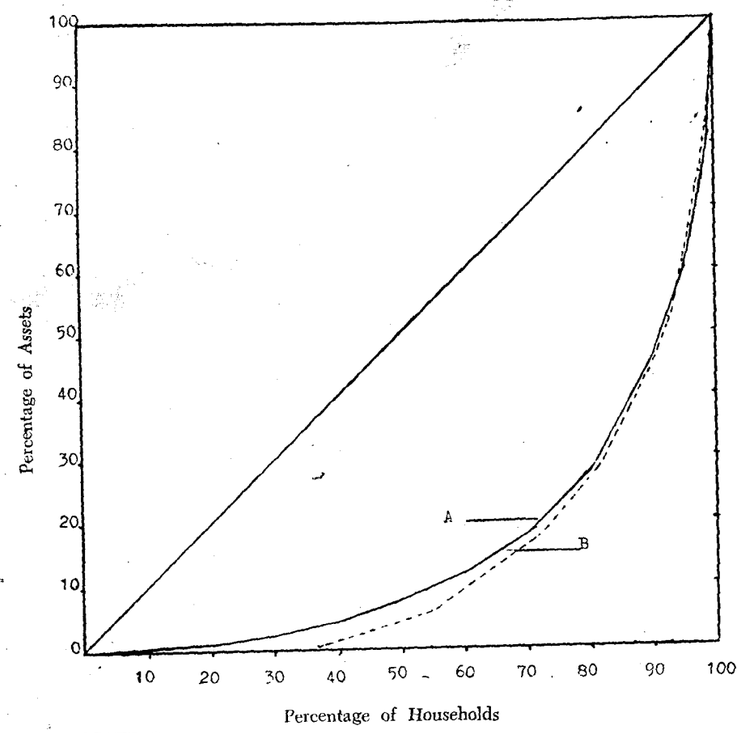
First, the distribution of all assets, including the values of land and of livestock, were derived by applying the proportions of land owned by the various size class of holdings. Then, the distribution of the aggregate value of land for the same size groups were estimated by applying the proportions of operated area owned by the respective classes. For this purpose, the distribution of operated area rather than total area has been used because bulk of the land is owned by the cultivators themselves. The distribution of the value of livestock presented some problems. The NSS inquiry[17] has provided the total number of livestock of all kinds owned by the households classified according to the different sizes of holdings. Ignoring price differences arising from quality changes between size groups, the distribution of the value of livestock has been worked out in the same proportions as the number of cattle owned by each group. To derive the distribution of 'other' assets, the values of land and of livestock were then subtracted from the total of each group. To find whether the distribution of these assets so derived is close to the one obtained by the NCAER Survey, Lorenz curves were fitted to both sets of figures as well as the concentration ratios were estimated. It is seen that the Lorenz curves shown in Diagram 1, are close to each other and the distribution appears to be almost identical. The concentration ratio estimated by the NCAER study is 0.684 whereas the ratio obtained using the distribution derived here is 0.709. On this evidence, the distribution of the aggregate value of assets for the rural sector attempted here appears to be quite close to the actual one.

(B) DISTRIBUTION OF PERSONAL WEALTH IN THE URBAN SECTOR

The derivation of the aggregate value of assets and its distribution among

DIAGRAM 1

Rural Sector: Other Assets



A=NCAER Survey.
B=The Present Study.

the different size classes of asset holdings for the urban sector provide a number of insuperable problems. Not even an estimate of the aggregate value of assets belonging to the urban households has so far been attempted. Therefore, the estimates of the value of the various items of assets for urban households attempted here are based on rough and approximate methods and their distributions are derived on scanty evidences.

TABLE 8: DISTRIBUTION OF URBAN WEALTH IN THE FORM OF URBAN RESIDENTIAL PROPERTY IN 1961-62

(Current market value)

Decile Group	Aggregate Value (Rs crores)	Share in Aggregate Value
0-10	10.01	0.1
10-20	29.68	0.3
20-30	53.96	0.6
30-40	83.65	0.9
40-50	121.84	1.3
50-60	190.86	2.0
60-70	285.15	3.0
70-80	446.06	4.6
80-90	732.54	7.6
90-100	7,667.09	79.7
All classes	9,620.80	100.0

The major categories of assets belonging to the urban households may be broadly grouped into the following: (1) Real property; (2) assets in business and professions; (3) financial assets in the form of shares of joint-stock companies, government securities, debentures, dues receivable on loans, bank deposits etc; (4) durable household assets including private automobiles; and (5) jewellery and other precious metals. In this note, it has not been possible to take all these items into account in estimating and allocating the aggregate value of assets. Item (4), the value of household durable assets including that of automobiles as well as item (5), namely, the value of gold, jewellery and precious metals, have been excluded for want of reliable data. To this extent, the aggregate value of assets given may be considered an underestimate or may be assumed to compensate for any overestimation of the items included here.

The three categories of assets included here closely follow the practice of the income-tax authorities in their classification of incomes according to sources; namely, (i) income from property; (2) interest on securities; (3) dividends; (4) income from business and professions; (5) capital gains; and (6) salaries. Capital gains may be excluded from our estimate, as the assets from which they accrue are presumed to be otherwise covered. As regards salaries, the tangible assets from which they originate are likely to be negligible. So we are left with only the first four of the categories identified by the income-tax authorities.

The income-tax statistics have been used in the past to work out not only the distribution of assets but also to estimate the value of assets itself.[18] In these cases, a multiplier has been applied to the aggregate income of a group, in order to take into account the differences in the income-wealth ratios for different size of wealth-holders, different multipliers have been applied to the various income-groups. The limitations of this method stem from the limitations of the income-tax statistics itself. Since the incomes shown under each category are assessed incomes these are apt to be considerably underestimated due to exemptions, tax evasion, etc. The value of assets estimated in this manner is likely to suffer from serious underestimation.

To avoid the pitfalls of the above procedure, in this study the aggregate value of each type of asset has been estimated independently of the income-tax data. In this manner, it has been possible to obtain, possibly, a more reliable estimate of the total value of assets. However, in the absence of any independent information on the distribution of these assets among the households, limited use has been made of the income-tax statistics for this purpose. When using this method, it is assumed that within given ranges of incomes the value of a given asset is proportional to the income accruing from the possession of that asset. That is to say, we have assumed that the income-asset ratio is constant for all income ranges for a homogeneous asset. On this assumption, the differences in income-wealth ratios of different wealth-holders are explained by the differences in their portfolio holdings of assets.

The use of income-tax data for estimating only the distribution of assets for the urban sector has some justification. Since agricultural incomes are excluded from the central income-tax,

TABLE 9: DISTRIBUTION OF URBAN PERSONAL WEALTH IN THE FORM OF BUSINESS ASSETS BELONGING TO THE HOUSEHOLDS, 1961-62

Income Group	Number of Households	Aggregate Value of Assets (Rs crores)
Below 3,000	1,170,630	125.58
3,001- 5,000	164,722	433.68
5,001- 7,500	144,352	531.60
7,501- 10,000	74,820	375.74
10,001- 12,500	42,050	266.81
12,501- 15,000	26,642	203.66
15,001- 20,000	30,497	286.22
20,001- 25,000	14,977	174.69
25,001- 30,000	8,380	115.30
30,001- 40,000	8,087	135.58
40,001- 50,000	3,825	80.82
50,001- 60,000	1,912	48.38
60,001- 70,000	1,162	35.63
70,001-1,00,000	1,645	63.15
1,00,001-2,00,000	1,153	68.66
2,00,001-3,00,000	215	24.91
3,00,001-4,00,000	79	11.87
4,00,001-5,00,000	40	8.70
Over 5,00,000	71	31.28

TABLE 10: ESTIMATES OF PAID-UP CAPITAL AND DIVIDENDS FOR PUBLIC AND PRIVATE LIMITED COMPANIES, 1961-62

Type of Company	Value of Paid-Up Capital Covered by RBI Study (Rs crores)	Percentage of Paid-Up Capital Covered by RBI Survey	Estimated Total Value of Paid-Up Capital (Rs crores)	Dividend as a Percentage of Paid-Up Capital	Estimated Amount of Total Dividend (Rs crores)
Large and medium public limited companies	757.04	87	870.16	10.9	94.85
Small public limited companies	23.81	28	85.03	6.4	5.44
Private limited companies	90.89	35	259.60	13.1	34.00
Total			1,214.79	11.05	134.29

Source : Estimates based on *Reserve Bank of India Bulletins, ibid.*

the data derived from the latter cover primarily the urban incomes. However it has to be kept in mind that they cover only a limited range of incomes in the upper strata. The under-reporting of incomes in the higher levels of this upper strata may also be greater than in the lower, and to that extent the data may not correctly reflect to provide the distribution in the range of incomes covered by the tax. Moreover, the distribution of wealth is generally observed to be more skewed than the distribution of income, and therefore the use of income-tax data for this purpose is likely to underestimate the asset holdings of even these upper income groups. On the other hand, since the purpose of this paper is ultimately to estimate the yields from a net wealth tax and not to study the changes in the distribution of wealth *per se*, the effect of this will be only some underestimation of the yield of the tax itself. The limitations of the estimate are stated at the very outset to make clear that, in deriving the distribution of assets on the basis of income-tax data, we are fully aware of the limitations of the procedure followed, but that we have accepted it in the absence of a workable alternative.

(1) ESTIMATION OF THE VALUE OF URBAN REAL PROPERTY

The households may own real property in the form of residential houses for own occupancy or for renting out and as non-residential buildings either occupied by own business or again let out to other businesses. Reasonably good data on the distribution of owner-occupied houses and the average market value of houses for different fractile groups of this class of households for the year 1960 based on the NCAER study of urban income and saving are given in the Report of the Committee on Distribution of Income and Levels of Living.[19] According to the data given there, the top 10 per cent of home-owning urban households accounted for 57 per cent of the value of all owner-occupied houses in that sector, the top 20 per cent for 73 per cent while the bottom 10 per cent owned only 0.2 per cent of the aggregate value.

The Report on Housing Conditions by the National Sample Survey[20] provides enough information to estimate the total number of urban households and also the proportions of owner-occupied households in the total. According to the National Sample Survey Report, 53.2 per cent of the total urban households lived in own dwellings. The data obtained by the National Sample Survey in their different rounds of inquiry confirm that this percentage forms greater than 50 per cent of all urban households. According to the NSS Report, during 1961-62, the total number of urban households is 16.64 million and the number of households residing in own dwelling comes to 8.86 million, the remaining households, naturally, staying in rented houses. The average current market value for 1960 of owner-occupied houses for each decile group is given in the Report of the Committee.[21] These market values were adjusted for price changes between 1960 and 1961-62. The price index used for this adjustment is the implicit price index of income of real estate, etc, given in the estimates of net domestic product. The current market values, thus obtained is multiplied by the number of houses constituting the decile group to obtain the aggregate value of own-houses for each group. Table 7 gives the distribution of wealth held in the form of owner-occupied houses.

The aggregate value of owner-occupied dwellings alone amounts to over Rs 4,500 crores in 1961-62. This excludes the values of residential buildings rented out and of all non-residential buildings owned by the households. Estimation of these items presents some problems. On the basis of market values of owner-occupied houses for various groups, an attempt has been made here to estimate the aggregate value of residential buildings rented out. The method followed for this is as follows. The National Sample Survey Report has classified the urban households, both the owner-occupied as well as those living in rented houses, according to monthly expenditure classes. Therefore, the aggregate value of owner-occupied houses was re-calculated for each expenditure class. For this calculation, a concentration curve was fitted to the committee's data, and the percentage of aggregate value of owner-occupied housing for the percentages of householding corresponding to the respective expenditure class was estimated. Based on these, the average market value of houses for each group was then derived.

To estimate the value of rented dwellings, first, it is assumed that the relation between housing and income will be the same for households either occuping own houses or living in rented houses if both households belong to the same monthly expenditure group. This implies that the quality of housing services demanded is determined by the level of income and is invariant with respect to ownership status. Studies on the relationships among housing, income and ownership status do not exist for India, but, a study conducted in the United States confirms the above assumption, when income in the relationship is interpreted as 'permanent income'.

> "Where current income of consumers is the explanatory variable, owners appear to be willing to buy better housing than tenants with the same current income. This has led to the notion that owners tend to have a higher standard of, or preference for, housing than tenants. But this difference in housing between owners and tenants seems unlikely to represent preference. Instead, it is observed because current income is much influenced by a transitory or short-run income change. Because of this, where current income is the same, difference in housing of groups, such as owners and tenants tends to be positively correlated with the average normal income of the groups compared. *Where owners and tenants have the same normal income and are of the same household type*, their housing appears to be very similar" (italics added).[22]

On the above assumption, the average market value of a rented house belonging to a particular monthly expenditure class is taken to be the same as that of the owner-occupied one in that group. The National Sample Survey Report[23] provides estimates of the number of households living in rented houses and belonging to different monthly expenditure groups. The aggregate value of rented dwelling for each expenditure group is obtained by a simple arithmetic operation of multiplying the number of dwellings by the average value for that ownership group. The aggregate value of residential buildings rented out on this basis amounts to Rs 5,079 crores at 1961-62 prices. The average market value of ownership homes for all classes combined works out to Rs 5,131 compared to an average value of Rs 6,526 for rented houses. This difference in average values is due to the fact that a larger percentage of households living in rented houses belonged to the higher monthly expenditure groups. For instance, 52 per cent of the owner-occupied households had monthly expenditures of less than Rs 100 while the corresponding percentage for households living in rented houses was only 43. Based on these procedures the total estimated value of residential property in the urban sector adds to Rs 9,620 crores.

The Reserve Bank of India study on "Estimates of Tangible Wealth of India"[24] has estimated the value of urban house property for 1960-61 to be only Rs 4,381 crores. When this estimate is adjusted for price changes between 1960-61 and 1961-62, the aggregate value will not exceed even the value obtained in this study for owner-occupied houses. It seems therefore that the Tangible Wealth study of the Reserve Bank has underestimated the value of urban house property. In fact, there is evidence that it has considerably underestimated the value of rural house property. According to the study, the value of rural house property amounted to only Rs 2,732 crores in 1960-61. On the other hand, the Rural Debt and Investment Survey has estimated the value of rural residential buildings in 1961-62 to be Rs 6,319 crores, about 2.3 times larger than the figure given in the former study. The estimate obtained in this study for urban property is slightly more than twice the value given in the RBI study. If the order of magnitude of under-

TABLE 11: DISTRIBUTION OF URBAN PERSONAL WEALTH IN THE FORM OF SHARES OF JOINT-STOCK COMPANIES, 1961-62

Range of Income (Rs)	Number of Households	Value of Shares (Rs crores)
Below 3,000	82,106	93.24
3,001- 5,000	18,801	24.82
5,001- 7,500	21,184	32.33
7,501- 10,000	14,911	29.25
10,001- 12,500	10,577	26.83
12,501- 15,000	8,019	23.27
15,001- 20,000	11,136	40.71
20,001- 25,000	7,059	34.88
25,001- 30,000	4,678	31.06
30,001- 40,000	5,930	45.21
40,001- 50,000	3,277	34.14
50,001- 60,000	1,902	28.57
60,001- 70,000	1,292	21.87
70,001-1,00,000	1,816	47.49
1,00,001-2,00,000	1,367	74.39
2,00,001-3,00,000	255	25.69
3,00,001-4,00,000	93	15.76
4,00,001-5,00,000	49	8.32
Over 5,00,000	76	32.20

TABLE 12: DISTRIBUTION OF URBAN WEALTH IN THE FORM OF GOVERNMENT SECURITIES AND DEBENTURES, 1961-62

Range of Income (Rs)	Number of Households	Aggregate Value Owned (Rs crores)
Below 3,000	143	0.40
3,001- 5,000	4,545	9.27
5,001- 7,500	4,719	11.04
7,501- 10,000	3,991	9.98
10,001- 12,500	2,527	7.49
12,501- 15,000	1,977	7.26
15,001- 20,000	2,736	12.48
20,001- 25,000	1,795	9.44
25,001- 30,000	1,118	6.40
30,001- 40,000	1,551	11.16
40,001- 50,000	935	9.22
50,001- 60,000	591	6.29
60,001- 70,000	350	4.88
70,001-1,00,000	569	9.36
1,00,001-2,00,000	441	10.61
2,00,001-3,00,000	112	6.48
3,00,001-4,00,000	36	3.65
4,00,001-5,00,000	23	3.32
over 5,00,000	53	12.47
All classes	28,212	151.20

TABLE 13: ESTIMATED HOUSEHOLD CAPITAL FORMATION, TOTAL FOR 1961-62 TO 1969-70, FOR THE RURAL AND URBAN SECTORS AT 1960-61 PRICES

(Rs crores)

	Rural Sector	Urban Sector
Total value of net addition to assets	4,858.63	2,609.04
Net addition to housing	2,028.58	1,161.01
Net addition to business assets	2,530.05	1,448.03

estimation is roughly the same for both the sectors, then, the estimate obtained here appears to be correct.

No information is available regarding the value and distribution of non-residential buildings owned by the urban households. To this extent, the estimate of the aggregate value given above is vitiated. A large proportion of the value of non-residential buildings is possibly owned by companies and other institutions. Because of this omission, the extent of concentration of urban property obtained here will be also an underestimate.

While the average value of owner-occupied dwellings for each decile group is known, similar information is not available for rented dwellings. Data on the former indicate that 10 per cent of these households own 57 per cent of the aggregate value. In the absence of any information, we have assumed that the top 10 per cent of owner-occupied households also own all the residential property rented out.[25] On this assumption, 5.3 per cent of the urban households will be owning 79.6 per cent of the urban residential property. The per household average value of urban residential property owned by this group comes to Rs 86,500. The distribution of the ownership of urban property derived on this basis is given in Table 8.

(2) ESTIMATION OF ASSETS IN BUSINESS

Besides property, one of the most important items of wealth in the urban sector is business assets of households. An examination of income, assessed according to sources for income-tax, shows that income from business and professional incomes formed the largest item in 1961-62. Business assets of households arise principally from two sources: wholesale and retail trade and unincorporated or partnership firms for manufacture and sale of commodities. The problems connected with the estimation of capital-stock in the trade sector is well summarised in the RBI study:

> "As is well known, data relating to distributive trades are sparse and scanty. The only reliable information relating to distributive trades relates to the balance-sheet data of trading companies. The ratio of capital-stock (net fixed assets excluding land plus inventories) to net output of the trading companies in 1960-61 has been worked out on the basis of the balance-sheet data available in the RBI. Applying this ratio to the income generated under trading given in the White Paper on National Income of the CSO, the total capital-stock of the entire trading sector has been estimated."[26]

In the absence of a more reliable alternative method, we have also followed the above procedure with appropriate modifications in order to arrive at an estimate of the value of assets in business owned by households. From the data relating to company finances, published in the *RBI Bulletins*, an estimate of the capital-output ratio for the trading companies was derived. The ratio so obtained came to 2.5. An inspection of the RBI study showed that they had used the same figure to estimate the value of assets in trade. From the National Income data, the value of net output at factor cost for trade, storage, hotels and restaurants, is known for 1961-62; and by applying the capital-output ratio to this figure, the aggregate value of assets is obtained.

The figure thus estimated will equal the value of assets of the trading sector for the whole country; to obtain the share of assets of the urban household sector, those of the rural sector and of trading companies have to be subtracted. Some data relating to trading activity in the rural sector is available from the NSS inquiry on household non-registered trade.[27] "Here household trading stands for trading carried on entirely by households themselves, or in co-operation with other households as joint enterprise. The non-households trading establishments and households engaged in trade registered under Sales Tax Act are excluded from the scope of the Survey."[28] This Survey provides estimates of the value of fixed capital and of stocks per household usually engaged in trade. These figures have been blown up by the number of households engaged in trade as estimated by the same survey to obtain the total value of assets in trade in the rural sector. This is subtracted from the earlier figure for all India. It is assumed here that all trade in the rural sector is accounted for by the non-registered household sector. To the extent that there were some households registered for sales tax, the estimated value for the rural sector will be an underestimate. But it is unlikely that, in the rural areas, the total volume of sales for any establishment would be such as to qualify for registration under the Sales Tax Act for any but a small microscopic number of establishments.

A similar adjustment is also needed for the value of assets of the trading companies. The company finance surveys of the Reserve Bank of India provide information on fixed assets and inventories for trading companies registered under the Company Act. The values of these assets are available for large, medium, and small public and private limited companies. Thus, subtracting the values of assets of the rural sector and of the trading companies from the total assets in trade the value of assets of the urban household sector engaged in trade is obtained.

The business incomes taxed, however, do not extend to the whole of the trading income of the urban household sector. A certain proportion of trading is accounted for by households as non-registered trade, defined as above. The data relating to such non-registered trade of the households for the urban sector can also be obtained from the NSS Report.[29] An estimate of the value of the assets, applying the same procedures as in the case of the rural sector, is obtained for non-registered trade which is again subtracted from the aggregate value of assets in the trading sector. The rest of the value of the assets is assumed to belong to the population in business that it covered by the income-tax statistics.

To find out whether the above assumption can be justifiably made, a comparison is undertaken between the data covered by the income-tax and the estimate derived in this study. For this purpose, the income from business assessed for tax has been aggregated for individual, Hindu undivided families and unregistered firms and other associations of individuals.[30] The income so obtained includes income from trade as well as manufacturing. The trading income is separated, and it amounted to Rs 360 crores in 1961-62. The total income from all business assessed for tax for these assessees amounted to Rs 400 crores. The income assessed for tax will be equivalent to net profits before tax as usually shown in the balance-sheets of firms. The basis of the estimate in this study is income originating in the trading sector as shown in the national accounts. If the ratio of net profits before tax to net value added in the trading sector is known, then either one of the estimates can be converted to the same basis as the other one for comparison. The ratio of net profits before tax to net value added for trading companies have been estimated from the data given in the Reserve Bank Surveys of company finances which has been applied to the adjusted net income of the trade sector estimated above to make it comparable with the income-tax data. The figure thus obtained is Rs 400 crores, which is to be compared with the Rs 360 crores of income from trade subjected to income-tax. The difference of Rs 40 crores could be attributed to evasion, under-reporting of incomes, etc. Thus it appears that the income-tax statistics cover 90 per cent of the registered trade of the household sector. In the light of the remarks made earlier, about the nature of the income-tax data, the closeness of these two estimates raises serious doubts about the accuracy of the estimates of income originating from the trading sector as given in National Income data.

The income originating in business assessed for tax includes, besides trading income, income from manufacturing engaged in by the household sector. Such income originates in incorporated factory establishments. The Reserve Bank study on tangible wealth indicates a basis for estimating the income from such establishments. "As regards factory establishments outside the corporate sector", this study states, "it is assumed that the stock of capital will be about 7 per cent of the stock of capital under 'manufacturing' in the corporate sector. This ratio is based on the percentage of output of all factory establishments together accounted for by proprietor and partnership establishments will in the Census of Manufactures, 1957."[31] We shall assume that the assets of factory establishments outside the corporate sector thus estimated belong to the household sector. It was mentioned earlier that the total business income assessed for the households amounted to about Rs 400 crores, out of which trading income accounted for nearly Rs 360 crores only. The difference of Rs 40 crores, which is the income accruing to households from manufacturing—if blown up to its corresponding value added figure and then with a capital-output ratio of 2.5 to 3 is applied—leads to an estimated value of assets of between Rs 250 and Rs 300 crores. The estimated value of assets in unincorporated factory establishments on the basis described in the Reserve Bank study amounts to Rs 225 crores. Table 9 gives the details of the ownership pattern of business assets in the urban sector for 1961-62.

(3) ESTIMATES OF THE VALUE OF FINANCIAL ASSETS OWNED BY THE HOUSEHOLD SECTOR

Financial assets owned by the households will mostly consist of shares of joint-stock companies, debentures, government securities, loans receivable, and bank deposits. Information relating to most of these items of assets is scanty; and for any item, even if its aggregate value is known, the pattern of ownership distribution among households belonging to different asset groups can hardly be pieced together. For this reason, while some items, like the amount of bank deposits held by individuals, are available from published sources, they have to be omitted from the purview of this study. The financial assets taken into account in this analysis are only the values of shares, government securities, and debentures, belonging to the household sector.

It is necessary to point out here that data on the ownership structure of shares of joint-stock companies are very nebulous, in spite of the concern often expressed by the government regarding the evils of monopoly and of concentration of ownership and control in the industrial field. L C Gupta, who has analysed this problem, states: "Virtually no data existed on the ownership pattern of industrial securities in India, till recently. An attempt was made by the author to fill this gap, by initiating a specific inquiry in 1957. This was the first attempt in this direction and was no more than exploratory. Subsequently, two more inquiries were organised, one by R K Hazari and the other by the Reserve Bank of India. These three inquiries furnish the most important data at present available, on ownership of industrial securities in India."[32] (Numberings to references omitted.)

This is not the place to attempt a critical review of the above studies, but it is necessary to mention that the coverage of each of these studies has been rather limited. However, they still provide enough data to form a basis for estimating the aggregate value of shares of joint-stock companies owned by the household sector. Gupta's study[33] relates to 63 companies, each with a paid-up capital of over Rs 50 lakhs; it shows that 54.3 per cent of the total share capital is owned by individuals. According to Hazari, "Individuals in India owned about one half of the total share capital . . .".[34] According to the Reserve Bank Surveys, the percentage share of holdings of individuals has declined from 52 per cent in 1959 to 45 per cent in 1965.[35] Gupta, however, says: "The bulk of shares, both equity and preference, is held by individuals. If the shares held by banks as nominees and trustees are regarded as belonging to individuals, individuals as a class, hold well over 50 per cent of the equity shares, and well over 60 per cent of the preference shares. This is confirmed by all the three inquiries, if allowance is made for nominee holdings of banks".[36] It would appear, therefore, from these findings and observations that one method we can adopt is to estimate the value of total paid-up capital of all non-government joint-stock companies and obtain the share of individuals as a given percentage of this total. In this study, it is assumed that the share of individuals is 55 per cent of the value of paid-up capital.

To judge the reliability of the estimate obtained in the above manner, an alternative estimate has also been worked out on the basis of the distribution of dividends declared by the companies. The estimate of the aggregate value of paid-up capital as well as of total dividends is based on the periodical company finance surveys of the Reserve Bank of India.[37] Table 9 gives the estimates of paid-up capital and the amount of dividends based on these surveys.

Thus the estimated value of paid-up capital of non-government joint-stock companies amounts to Rs 1,215 crores in 1961-62. The NCAER has estimated the value of paid-up capital of all non-government joint-stock companies in 1961-62 to be Rs 1,358 crores. It is necessary to mention here that the estimate made here excludes the paid-up capital in banking, insurance and investment companies, non-profit companies, and associations and companies limited by guarantee. This possibly accounts for the small difference in the two estimates.

TABLE 14: PRICE INDICES USED TO BRING THE DIFFERENT ITEMS OF ASSETS TO 1969-70 PRICES

(Base year 1960-61 = 100)

Sector	1961-62	1969-70
Agriculture	102.3	197.7
Manufacturing	99.8	140.8
Trade, storage, etc	100.1	173.1
Real estate	102.0	142.4

TABLE 15: DISTRIBUTION OF PERSONAL WEALTH ABOVE RS 50,000 AND THE ESTIMATED TAX YIELD FOR 1961-62 AT 1969-70 PRICES

Size Class	Number of Households	Value of Assets in Rs crores	Estimate I		Estimate II		Estimate III		Estimate IV		Slab System: Rates Proposed in Finance Bill 71	
			Rate	Yield	Rate	Yield	Rate	Yield	Rate	Yield	Rate	Yield
50,000-1 lakh	23,80,583 (70.27)	15,717.05 (45.85)	0	—	0.2	31.43	0.5	94.30	0.5	94.30	0	—
1 lakh-3 lakhs	9,47,813 (27.99)	13,697.47 (39.69)	1.0	136.07	1.0	136.07	1.0	136.07	1.0	136.07	1.0	158.64
3 lakhs-5 lakhs	60,421 (1.78)	2,257.37 (6.58)	1.0	22.57	1.5	33.86	1.0	22.57	1.5	33.86		
5 lakhs-10 lakhs	22,815 (0.67)	1,529.31 (4.46)	1.5	22.94	2.0	30.59	1.5	22.94	2.0	30.59	2.0	19.18
10 lakhs-15 lakhs	3,333 (0.10)	395.92 (1.16)	2.0	7.92	2.5	9.90	2.0	7.92	3.0	11.88	3.0	6.88
15 lakhs-20 lakhs	1,111 (0.03)	197.29 (0.58)	2.5	4.93	3.0	5.92	2.5	4.93	3.5	6.91	8.0	43.63
Above 20 lakhs	1,481 (0.04)	577.11 (1.68)	3.0	17.31	3.5	20.20	3.0	17.31	5.0	28.86		
Total	33,87,557	34,281.52		211.74		267.97		306.04		342.47		228.33

Note: Figures in brackets are percentages.

The alternative estimate of the share of paid-up capital belonging to individuals is based on the amount of dividend income accruing to them. The estimated amount of total dividend income in 1961-62 is Rs 134.29 crores. From this total, the dividend incomes accruing to companies, government, Life Insurance Corporation of India, trusts, and foreign nationals, are subtracted to obtain the share of the households in India. (This will include individuals, Hindu undivided families, non-registered firms and associations of individuals, etc.) The amount of dividend income accruing to companies, registered firms and others, according to income tax statistics, is Rs 39.45 crores in 1961-62. On the basis of Hazari's study, it is estimated that about 15.5 per cent of the value of shares are held by the government, LIC, trusts, and foreign nationals. Assuming that the dividend income accruing to them is proportional to the value of shares, 15.5 per cent of dividend income is also subtracted from the total. The residual dividend income, of Rs 73.8 crores, is assumed to belong to the households.

The amount of dividend income of individuals, Hindu undivided families, and unregistered firms and other associations of persons, which has been taxed amounted to Rs 46.67 crores in 1961-62. It is also seen that Rs 7.41 crores of dividend income was refunded due to their income being exempt or below taxable limit. Thus the total dividend income accruing to the household sector, based on income-tax data, would amount to Rs 54.08 crores. A comparison of this figure with the estimate made here suggests that some part of the dividend income accruing to individuals in 1961-62 went untaxed for one reason or another in 1961-62: the difference between the two estimates, of course, would be also due to errors in the former estimate.

The estimated value of shares owned by the households on the basis of 55 per cent of the value of paid-up capital amounts to Rs 668.0 crores in 1961-62. On the other hand, the value obtained by applying the percentage of dividend to paid-up capital to the estimated dividend income of individuals comes to Rs 670.8 crores. Thus the two estimates provide remarkably close indications of the value of shares held by individuals.

Data on the number of share-owners and the value of their holdings according to size of holdings are meagre and unsatisfactory. Based on the Reserve Bank of India study,[38] Gupta estimates that the number of share-owners would be between 6.25 and 7.5 lakhs in 1961. This number is derived on the basis of the estimate of Rs 335 crores, assumed to be the value of quoted industrial securities owned by individuals and dividing this amount by the average value of shares for individuals obtained from the RBI study.[39]

In a later inquiry of 189 companies by the Reserve Bank, it is indicated that 14.62 lakhs of individuals owned shares valued at Rs 192.65 crores. But this study clearly points out that there is double-counting of owners and, therefore, the number of individual share-owners obtained in the study is of limited use. "One of the limitations of the data is that there may be some double-counting of shareholders in the case of joint holders. There may be two or more accounts for the same person on the list of share holders of a company... It is also possible that the same shareholder may have more than one account in a company as the name might have been given differently in different accounts although the person is the same. Sometimes, shares are held in the names of nominees. It would be extremely difficult for companies themselves to find out such duplications. It was not practically possible to eliminate such duplication and double-counting of shareholding. In all such cases, the results of any study of the pattern of ownership is likely to be vitiated to some extent... Another instance of duplication in shareholdings arises from the fact that the same individual shareholder may have shares in more than one company covered in the Survey. An estimate of unduplicated number of shareholdings by estimating duplicating in shareholding is being made on the basis of a sampling technique known as 'alpha segment sampling' (which is used by the New York Stock Exchange in its census of share owners) which is proposed to be published when results become available".[40] The results of the 'alpha segment survey', however, have not been published so far. It is hardly necessary to indicate the importance of this information in evaluating the

TABLE 16: DISTRIBUTION OF PERSONAL WEALTH ABOVE RS 50,000 AND THE ESTIMATED TAX YIELD FOR 1969-70 AT CURRENT PRICES

Size Class	Number of Households	Value of Assets in Rs crores	Estimate I		Estimate II		Estimate III		Estimate IV		Slab System: Rates Proposed in Finance Bill 71	
			Rate	Yield	Rate	Yield	Rate	Yield	Rate	Yield	Rate	Yield
50,000 - 1 lakh	24,36,127 (66.80)	17,342.08 (44.84)	0	—	0.2	34.68	0.5	86.71	0.5	86.71	0	—
1 lakh-3 lakhs	11,11,971 (30.49)	16,371.04 (42.33)	1.0	163.71	1.0	163.71	1.0	163.71	1.0	163.71	1.0	189.28
3 lakhs-5 lakhs	71,031 (1.95)	2,557.19 (6.61)	1.0	25.57	1.5	38.36	1.0	25.57	1.5	38.36		
5 lakhs-10 lakhs	23,803 (0.65)	1,679.48 (4.34)	1.5	25.19	2.0	33.59	1.5	25.19	2.0	33.59	2.0	21.69
10 lakhs-15 lakhs	2,336 (0.06)	282.86 (0.73)	2.0	5.65	2.5	7.07	2.0	5.65	3.0	8.49	3.0	4.99
15 lakhs-20 lakhs	825 (0.02)	130.55 (0.34)	2.5	3.26	3.0	3.92	2.5	3.26	3.5	4.57	8.0	20.26
Above 20 lakhs	824 (0.02)	308.24 (0.80)	3.0	9.25	3.5	10.79	3.0	9.25	5.0	15.41		
Total	36,46,917	38,671.44		232.63		292.12		319.34		350.84		236.22

Note: Figures in brackets are percentages.

concentration of ownership of industry and of economic power in India. But it is evident in the light of the observations made in the Reserve Bank study, that Gupta's estimate of the number of individual share-owners is likely to have been an overestimate.

As mentioned earlier, the estimated dividend income accruing to individuals has been estimated at Rs 73.8 crores in 1961-62, while the amount taxed in that year was only Rs 54.1 crores. The value of paid-up capital corresponding to the latter figure is Rs 491.6 crores. The difference between the estimated and the taxed amount of dividend income is about Rs 20 crores and the corresponding value of paid-up capital is Rs 179 crores. The total number of assessees reporting dividend income in 1961-62 (including the refundees) is 1.95 lakhs. However, since 1959, dividend incomes are taxed at source, and the owners of the shares should have either claimed tax refunds or appeared in the number assessed for income-tax under dividends as a source of income. On the other hand, taking a cue from the observation made in the Reserve Bank study, perhaps, a number of share-owners hold shares in the same company under different names which may be used for proxy votes or for other purposes including tax evasion. In the absence of reliable information on all these aspects of shareholdings, it is decided to add the above amount of Rs 179 crores to the value of shares estimated to belong to the income-tax assessees. Thus, the estimated value of shares, owned by tax-paying households, is assumed to be Rs 603.4 crores instead of Rs 491.6 crores estimated on the basis of assessed dividend income. This amount excludes the value of shares corresponding to the dividend income refunded by the tax authorities.

The ownership pattern of the total value of shares is given in Table 11.

No inquiry seems to have been conducted on the ownership pattern of government securities and debentures of joint-stock companies. Gupta remarks, "None of the inquiries conducted so far into ownership of corporate securities covers debentures of joint-stock companies. It is, however, possible to estimate roughly the proportions of quoted debentures held by three important institutional groups, *viz*, the Life Insurance Corporation of India, the commercial banks, and the general insurance companies. This can be done by a comparison of the market value of the debenture-holdings of these institutions with the total market value of all quoted debentures outstanding."[41] On this basis, he estimated the value of the holdings of the rest of debenture holders to be Rs 43.9 crores for 1960. The bulk of this may be attributed to the household sector.

In this study, an attempt has been made to estimate the value of government securities and debenture holdings of the household sector on the basis of the interest income assessed for income-tax. However, the value of government securities owned by individuals are available in the Reserve Bank Survey of the ownership of government debt.[42] According to it, the value of central and state government securities owned by individuals was Rs 78.2 crores at the end of March 1961 and Rs 74.1 crores at the end of March 1962. The figure we have assumed for 1961-62 is Rs 76.1 crores, which is an average of the two figures. The *Reserve Bank of India Bulletins* regularly publish data on the yields of government securities as well as of debentures. Using the estimated yield on government securities in 1961-62, we estimate first the interest income that would have accrued on government security holdings of Rs 76.1 crores. Data relating to the total interest incomes of individuals, Hindu undivided families, unregistered firms, partnerships, etc, are available from the published income-tax statistics. The estimated income on the government security holdings of individuals is deducted from this total, and the balance is assumed to arise from debentures issued by joint-stock companies held by urban households. The annual percentage yield on debentures, reported in *Reserve Bank of India Bulletins*, is then used for estimating the capitalised value of debenture-holdings of these households. The value of debenture holdings thus estimated is Rs 75.1 crores for 1961-62. While we have assumed par values for shares and government securities, the debentures are evaluated in terms of capitalised values. There will be a slight discrepancy on this account, but in the case of debentures it may be negligible.

The distribution of the combined

amount of government securities and debenture-holdings among the different income-classes of individuals is given in Table 12.

III

In the previous section, an attempt has been made to estimate the various components of personal wealth separately for rural and urban sectors for 1961-62. The net wealth tax is generally levied on the current value of assets and these estimates therefore need adjustment: first, for net accretion of assets between 1961-62 and the year for which tax estimates are obtained, and second, for changes in the price levels of the various assets during this period. In this study, an estimate of the yield from wealth tax has been attempted for 1969-70 and these adjustments are therefore to be incorporated for the period 1961-62 to 1969-70.

(a) Estimates of net Accretion to Personal Wealth during 1961-62 to 1969-70

Though estimates of total capital formation have been attempted recently,[43] the share and composition of the household sector in capital formation are not generally available. If all forms of assets are taken into account, the net addition to the assets of the household sector will be equal to the net savings generated in that sector. If the composition of the savings of the household sector is known, then it is possible to estimate the increments to each type of asset over a period of years. But, this direct method of estimation is not available to us since the savings of the household sector in India have been estimated generally by the 'residual' approach.[44] Therefore, in this study, an attempt has been made to estimate the annual additions to the most important items of assets for which some basic information exists. These have been estimated separately for the rural and urban sectors.

The basic data needed to estimate the annual net additions to the items of assets owned by the household sector has been obtained from the National Sample Survey Reports on Capital Formation in the rural and urban sectors.[45] "Information on fixed capital assets used in enterprises by the households was collected and no account of the change in stocks of working capital had been taken in the schedules of the inquiry. Though expenditure on purchase of used assets is capital transfer and does not add to national capital formation, the transference of such used assets from non-enterprise use to enterprise use has to be taken into account. It is for this reason that used assets have been separately included in this survey. The broad items on which data were collected are:

(i) Construction and improvements of buildings and other structures for residential and non-residential purposes;
(ii) Land development;
(iii) New physical assets for use in (a) agriculture and in (b) enterprise other than agriculture, like tools and implements, machinery, transport and equipment, furniture and other assets;
(iv) Improvements on used assets for enterprise purposes;
(v) Transactions (sale and purchase) on used physical assets meant for use in (a) agriculture and in (b) enterprises other than agriculture;
(vi) New and used physical assets for domestic use;
(vii) Change in livestock; and
(viii) Source of finance."[46]

The above reports provide estimates for the rural and urban sectors, of the number of households reporting capital formation as well as of the per reporting-household expenditure under each of the above items. However, not all the items reported have been included as additions to the asset holdings of the household sector. For instance, figures are separately given for the items, 'construction and improvements of buildings and other structures' and 'purchase of new buildings'. It is assumed that the item 'purchase of new buildings' will be a purely transfer item and is possibly included under the former item. Similarly the values shown under purchase of land' and certain categories of 'used physical assets' are also considered transfer items. The values for the remaining items have been estimated for the rural and urban sectors. The estimated addition to tangible assets for the rural sector came to about Rs 330.5 crores for 1959-60. The value of total fixed capital formation reported for rural households amounted to Rs 348.5 crores in 1961-62, according to the Rural Debt and Investment Survey.[47] The estimated value for the urban sector is Rs 199.25 crores for 1961-62. However, in the absence of further inquiries, it is not possible to obtain similar information for each year between 1961-62 and 1969-70. Therefore, an alternative method has been worked out to derive these figures.

The CSO study presents estimates of gross and net domestic capital formation for 1960-61 to 1965-66 at current and at 1960-61 prices. "The estimates have been made consistent with the revised estimates of National Product insofar as the conceptual framework and statistical source material are concerned."[48] While National Product estimates are available upto 1969-70, estimates of capital formation do not exist beyond 1965-66. Therefore, a regression equation was estimated between net domestic capital formation and net domestic product both at 1960-61 prices, on the basis of which values of net domestic capital formation were predicted for 1961-62 to 1969-70. The estimated equation is as follows:

C = Net domestic capital formation at 1960-61 prices
Y = Net domestic product at 1960-61 prices
t = Year, 1960-61 to 1965-66.

$$\log C_t = -6.1733 + 2.2739 \log Y$$
$$r^2 = 0.79.$$

The value of net additions to assets of all households is obtained by aggregating the values for the urban and rural sectors. For the rural sector, the Debt and Investment Survey estimate has been used. Then the ratio of household capital formation to predicted net domestic capital formation is worked out for 1961-62. This ratio is applied to the predicted values of net capital formation for 1962-63 to 1969-70. The predicted values of net domestic capital formation has been employed instead of the actual values for 1961-62 to 1965-66, only for the sake of consistency. Similarly, the percentages of housing and of business assets have been estimated for the rural and urban sectors for 1961-62, based on the sources mentioned earlier. Applying these percentages to the estimated values of rural and urban capital formation, the net additions to the value of housing and of business assets have been derived for 1961-62 to 1969-70. These estimates are given in Table 13.

It is also necessary to estimate the net changes in the holdings of financial assets between 1961-62 and 1969-70 Based on the Reserve Bank surveys of company finances, the aggregate value of paid-up capital of non-government joint-stock companies have been estimated. The latest year for which this data is available relate to 1967-68. It is assumed that 55 per cent of this was held by the individuals, as in 1961-62. On this basis, the value of shares came to Rs 1,058 crores. Similarly, from the Reserve Bank study[49] it is seen that the value of central and state government securities owned by individuals at the end of March 1969 amounted to Rs 48.7 crores. The value of debentures have been estimated by using the procedure described above, except for

1966-67 since the latest income-tax data relate to that year.

(b) Corrections for Price Changes During 1961-62 to 1969-70

The wealth estimates derived for 1961-62 are in current prices of that year and the net additions to the different items of tangible assets have been derived in terms of 1960-61 prices. In both cases, the value of shares, government securities and debentures have been given at par values.[50] Since net wealth tax is estimated at current prices, the above values need correction for price changes between 1961-62 and 1969-70. The appropriate prices for making these corrections are naturally the price indices of the respective items of assets. However, such indices for the items of assets included here hardly exist. Scattered evidence indicates that the prices of certain items of assets, like land and buildings, have increased by three to five times during the period under consideration. But, since the samples are limited, these magnitudes have not been employed for price corrections.

The price indices used in this study are the implicit deflators of net domestic product derived from the national income data. For land and livestock, the implicit price deflator for income originating in the agricultural sector has been used. For residential and other buildings, two alternative indices are available, either the implicit deflator for construction or the one for 'real estate and ownership of dwellings'. The former index rose from 104.1 in 1961-62 to 176.9 in 1969-70, with 1960-61 as the base year, whereas the latter increased from 102.0 to 142.4 only during the same period. We have employed the implicit deflator for 'real estate and ownership of dwellings' to creased from 102.0 to 142.4 only dural and urban sectors.[51] For business assets, the deflator for 'trade, storage, hotels and restaurants' have been used. This seems justified since a sizeable proportion of business assets are inventories. For the remaining items of assets (i e, implements, transport equipment, household durables) in the rural sector, the deflator for 'manufacturing' has been adopted. The result of using this procedure in the case of some important items of assets, i e, land and buildings is almost certainly that their 1969-70 values are considerably underestimated. However, this has been deliberately chosen in order not to err on the side of overestimation.

After price corrections, two sets of data are formed to estimate the tax yields. One set of data relates to the 1961-62 wealth distribution, and it is adjusted only for price changes between 1961-62 and 1969-70. In the second set of data, apart from price adjustment, the net additions to assets during the period is also taken into account. These data are referred to as the distribution of assets in 1969-70 at current prices. In aggregating the different items of assets to arrive at the final distribution for the urban sector, some attention is required to avoid double-counting of the number of individuals reporting different components of wealth. For instance, the income-tax data according to source of income assessed gives the number of assessees reporting each source under that category of income. Therefore, to avoid counting the same assessee more than once, the number of individuals, Hindu undivided families and unregistered firms, etc — which we have assumed to be the same as the number of households in this study — reported under income from all sources less the number of all salary earners is obtained for each income group to correspond to the total assets we already estimated for that group. The number of households thus estimated would be smaller than the number we would have obtained by adding together the number of assessees under each source of income for a given income class. These data are given in the Appendix.

(c) Estimation of Tax Yields

Having derived the value of personal wealth and its distribution for 1969-70, we are now in a position to estimate the likely yield from a property and net wealth tax in India. In order to do this, it is necessary to re-estimate the number of households and their corresponding values of assets for different size classes of assets. These have been obtained by fitting frequency functions to the given data; then, based on the estimated parameters the number of households and their corresponding wealth holdings have been calculated for the different wealth classes.

The lognormal and the Pareto distribution, were fitted to the data of both the rural and urban sectors. It was found that the lognormal distribution gave a better fit to the rural asset distribution and the Pareto distribution seemed more appropriate to the urban data.

Lognormal Distribution

The characteristic of the lognormal distribution and its applications in economics are rather well known. However, it may be mentioned that, while the distribution has been often applied to income distributions, it is probably rarely fitted to any wealth distribution data. In income distribution studies, it has been found that the lognormal distribution gave a better fit in the lower ranges of incomes while the Pareto distribution has been found more suitable to explain the distribution of the upper income levels. In view of this, it is not at all surprising that the lognormal distribution was found superior for the rural sector and the Pareto distribution for the urban sector.

According to the lognormal distribution, if $z=\log w$, where w is the level of wealth, w is lognormally distributed and correspondingly z is normally distributed. The distribution of w is completely specified by the two parameters θ and δ^2, the mean and variance. The probability density function is given by,

$$d\Lambda(w) = \frac{1}{w\delta\sqrt{2\pi}} \exp \left\{ -\frac{1}{2\delta^2} (\ln w - \theta)^2 \right\} dw \quad \text{for } w > 0$$

If α and β^2 are the mean and variance of the W-variate in original units, then,

$$\theta = \ln \alpha - \frac{1}{2}\delta^2$$

$$\text{and } \delta^2 = \ln \left(1 + \frac{\beta^2}{\alpha^2}\right)$$

Put $t_n = \dfrac{\ln w - \theta}{\delta}$, and the standardised normal distribution function is given by

$$\phi(t_n) = \int_{t_n}^{\infty} \frac{1}{\sqrt{2\pi}} \exp \left\{ -\frac{1}{2} u^2 \right\} du$$

From this function, the value of $\phi(t_n)$ can be estimated for wealth holdings above a specified level and by using a table of the normal distribution, the proportion of households can be obtained. To obtain the corresponding proportion of total wealth belonging to this estimated proportion of households,

put $t_w = \dfrac{\ln w - \theta}{\delta} - \delta$, and estimate

$$\phi(t_w) = \int_{t_w}^{\infty} \frac{1}{\sqrt{2\pi}} \exp \left\{ -\frac{1}{2} u^2 \right\} du$$

From a table of the normal distribution, the proportion of wealth-holdings corresponding to $\phi(t_w)$ can be similarly obtained.

The Pareto Distribution

The Paretian frequency function is

given by,

$$n(w) = \frac{\alpha}{w_o}\left(\frac{w_o}{w}\right)^{\alpha+1}$$

This function holds for $w > w_o$.

$$\text{Let} \quad \bar{w} = \frac{1}{N}\sum_{i=1}^{N} w_i$$

$$\text{Then} \quad w_o = \frac{\alpha - 1}{\alpha}\bar{w}.$$

For the wealth distributions in the urban sector, w_o was estimated in the above manner using the sample mean. Whenever $w_o > w_{min}$, the observations lying below w_o were discarded and the distribution was fitted to the remaining number of observations. The proportion of households with wealth in excess of, say w, is given by the cumulative function,

$$N(w) = \left(\frac{w_o}{w}\right)^{\alpha}.$$

The proportion of the aggregate wealth belonging to the same number of households is given by,

$$W(w) = \left(\frac{w}{w_o}\right)^{1-\alpha}.$$

Using the above cumulative percentages, the number of households and their corresponding value of personal wealth for different wealth classes have been estimated. Linear interpolation was used for the lowest size classes when these were found to be below w_o.

The estimated parameters of the frequency functions for the rural and urban sectors are given below:

Sector	Year	Type	Parameters			
			θ	δ^2	α	w_o
Rural	1961-62 at 1969-70 prices	Lognormal	8.88900	1.56425		
Rural	1969-70 at current prices	Lognormal	8.13591	1.82955		
Urban	1961-62 at 1969-70 prices	Pareto			2.02	91502
Urban	1969-70 at current prices	Pareto			2.23	72780

The values below Rs 50,000 have not been given since they are not essential for estimating the tax yield. To obtain the all-India distribution, the values for the corresponding asset classes of the rural and urban sectors have been aggregated.

The tax yield from wealth tax can now be estimated by applying the given rates to the various classes of wealth holdings. However, one more factor is to be considered before the estimates are given. The estimates derived in this study represents gross wealth while taxes are levied on net wealth, i e, gross wealth less liabilities. On the other hand, since 'loans receivable' (which are included as an asset item of the households in the Rural Debt and Investment Survey) have been excluded by us in estimating wealth in the rural sector, the liabilities of households corresponding to these do not need to be deducted. Moreover, in estimating the tax yield we are concerned here only with households having net assets of over Rs 50,000 and so it is only the liabilities of households in this range that would affect the estimates of tax yield. According to the Rural Debt and Investment Survey, the aggregate value of outstanding cash loans for all asset groups in 1961-62, amounted to Rs 2,788.93 crores but the share of the asset group of Rs 20,000 and above came to only Rs 613.90 crores.[52] The aggregate value of personal wealth above Rs 50,000 for the rural sector is estimated to be Rs 18,840 crores in 1969-70, which implies that the debt constitutes only 3.26 per cent of this amount. The National Sample Survey[53] has provided data on household indebtedness for the year 1960-61. This report gives the percentage of indebted urban households and the debt per indebted household. On this basis, the debt of the urban sector is estimated at Rs 56 crores for 1960-61. This amount also forms a negligible proportion of the urban assets. Besides, the price level has increased during this period, and the real value of liabilities has declined. While devising the asset distribution for both sectors, the values of loans receivable have been excluded. Taking all these factors into account, the wealth estimates derived here may be considered the same as the estimates of net wealth.

The personal wealth distribution and the estimated yields from a property and net wealth tax for alternative rates of taxation are given in Tables 15 and 16. The tax yields for the wealth estimates of 1961-62 at 1969-70 prices vary from Rs 212 crores to Rs 343 crores, the tax rates being 1 to 3 per cent of net wealth for wealth exceeding Rs 1 lakh in the former case and 0.5 per cent to 5 per cent on net wealth above Rs 50,000. These estimates are obtained by applying the step system, and if the slab system combined with the rates proposed in the Finance Bill of 1971 is used, the tax yield will still be Rs 228 crores. On the other hand, when the net accretions to personal wealth is also included, the tax yields for 1969-70 are seen to vary from Rs 232 crores to Rs 351 crores for the same rates. On the basis of the slab system, the estimated tax yield is Rs 236 crores. These figures represent rather the minimum amounts of tax revenues that can be raised from a net wealth tax since certain items of assets (precious metals, jewellery, cash, bank deposits) have been excluded in our study. Further, the derivation of current values for 1969-70 are based on conservative estimates of price changes which again underestimates the value of wealth given for that year. Therefore, the actual tax yield is bound to be much higher when allowances are made for these factors. It may be recalled that the net wealth tax is estimated to fetch only less than Rs 15 crores even when some of the changes proposed in the 1971 budget are introduced! In estimating the tax yields, all exemptions have been completely eliminated.

Comparison of the distributions of personal wealth for 1961-62 with price corrections and for 1969-70 indicates that there is a decline in the wealth holdings of the upper classes. This is probably merely illusory. The 1969-70 urban distribution has been derived on the basis of the 1966-67 income-tax data. The 1966-67 income tax data shows a fall in the inequality of income distribution compared to that of 1961-62. This might be a result of some under-reporting of incomes in the upper-income groups. It may be possible to take this factor into account and make the necessary adjustment to the parameters of the distribution function.[54] This adjustment has not been made now, since its effect on tax yields is likely to be low.

IV

This paper has attempted a study of some aspects of direct taxation in India and has analysed in detail the scope for comprehensive and broad-based property and net wealth taxation. In the course of the analysis, the gaps in data on many aspects of wealth distribution have become quite apparent. The present study, therefore, devotes considerable space to the estimation of the various components of personal wealth. Despite the limitations, these throw useful light on the economic structure and ownership pattern of wealth in the rural and urban sectors; and some aspects of this structure and distribution have implications for economic policy other than those discussed in the paper. The objective of this study is limited to estimates of the yields from a property and net wealth tax. The study leads to the conclusion that the yield from such a tax can vary from Rs 220 crores to Rs 350 crores per annum with rates varying from 0.5 per cent to 5 per cent. Compared to these estimates, the present yield of less than Rs 15 crores per annum appears to be a ridiculously paltry sum.

APPENDIX TABLE A-1 : DISTRIBUTION OF ASSETS IN THE RURAL SECTOR, 1961-62 (AT 1969-70 PRICES)

Size Class of Ownership Holdings	Number of Households (in millions)	Aggregate Value of Assets (Rs crores)	Average Value (Rs)
Upto 0.49	20.78	345.98	166.50
0.50 - 0.99	5.00	672.74	1,345.48
1.00 - 2.49	12.55	3,837.85	3,058.05
2.50 - 4.99	12.01	7,944.80	6,615.15
5.00 - 7.49	6.57	7,413.01	11,283.12
7.50 - 9.99	3.62	5,683.09	15,699.14
10.00 - 12.49	2.53	5,151.31	20,360.90
12.50 - 14.99	1.51	3,799.41	25,161.65
15.00 - 19.99	1.96	6,189.26	31,577.86
20.00 - 24.99	1.19	4,869.39	40,919.24
25.00 - 29.99	0.68	3,414.98	50,220.29
30.00 - 49.99	1.10	7,553.97	68,672.45
50.00 - 74.99	0.29	3,133.08	1,08,037.24
75.00 - 99.99	0.10	1,422.38	1,42,238.00
100.00 - 249.99	0.08	2,031.05	2,53,881.25
250.00 - 499.99	0.01	403.65	4,03,650.00
500.00 and above	NA	134.55	NA

APPENDIX TABLE A-2 : DISTRIBUTION OF ASSETS IN THE RURAL SECTOR, 1969-70 (AT CURRENT PRICES)

Size Class of Ownership Holdings	Number of Households (in millions)	Aggregate Value of Assets (Rs crores)	Average Value (Rs)
Upto 0.49	24.83	384.90	140.52
0.49 - 0.99	5.98	748.42	1,251.54
1.00 - 2.49	15.00	4,269.55	2,846.37
2.50 - 4.99	14.35	8,838.47	6,159.21
5.00 - 7.49	7.85	8,246.86	10,505.55
7.50 - 9.99	4.32	6,393.63	14,800.06
10.00 - 12.49	3.02	5,730.75	75,003.97
12.50 - 14.99	1.81	4,226.78	23,352.38
15.00 - 19.99	2.34	6,885.45	29,425.00
20.00 - 24.99	1.42	5,417.13	38,148.80
25.00 - 29.99	0.81	3,799.11	46,902.59
30.00 - 49.99	1.31	8,403.67	64,150.15
50.00 - 74.99	0.35	3,485.49	99,585.42
75.00 - 99.99	0.12	1,582.87	1,31,864.16
100.00 - 249.99	0.09	2,259.51	2,51,056.60
250.00 - 499.99	0.01	449.05	4,49,050.00
500.00 and above	NA	149.68	NA

Notes

1 See Kaldor, N, "Indian Tax Reform", Ministry of Finance, Government of India, 1956, Chapter 1.

2 Gulati, I S, "Capital Taxation in a Developing Economy (India)", Orient Longmans, 1957. This study was submitted earlier to the London PhD degree.

3 Government of India, Ministry of Finance, Memorandum Explaining the Provisions in the Finance (No 2) Bill, 1971, p 36.

4 *Eastern Economist*, Budget Number, June 11, 1971, p 1017.

5 Kaldor, *op cit*, Table 1, p 27.

6 Government of India, Ministry of Finance, *ibid*, pp 29-30.

7 Kaldor, *op cit*, p 3. The late Oskar Lange, in course of his observations on the Second Five-Year Plan, fully supported the proposal of Kaldor. He remarks: "Professor Kaldor's recommendation for tax reform provide such measures which can increase revenue by Rs 100 crores per annum". In "Observations on the Second Five-Year Plan in India", Oskar Lange, "Papers in Economics and Sociology", Pergamon Press, 1970, p 462.

8 For a detailed discussion on some of the important aspects needing drastic changes in the Indian tax structure, see Gulati, I S, "Agenda for Tax Base Reform", *Economic and Political Weekly*, May 15, 1971.

9 See Gandhi, Ved P, "Some Aspects of India's Tax Structure", Vora. Chapter 13 is devoted to this analysis.

10 Groves, Harold M, "Is the Property Tax Conceptually and Practically Administrable?", in Arthur D Lynn Jr (ed), "The Property Tax and Its Administration", p 19.

11 Johansen, Leif, "Public Economics", North-Holland Publishing Company, 1971, p 199.

12 Uma Dutta and Vinod Prakash, "An Estimate of Reproducible Tangible Wealth in India, 1949-50" in "Papers on National Income and Allied Topics", Volume I, Asia Publishing House, Bombay. M Mukherjee and N S R Sastry, "An Estimate of the Tangible Wealth of India", "Income and Wealth Series VIII—The Measurement of National Wealth", IARIW. "Estimates of Tangible Wealth in India", *Reserve Bank of India Bulletin*, January 1963. "All-India Rural Debt and Investment Survey, 1961-62", *Reserve Bank of India Bulletin*, June 1965.

13 "All-India Rural Debt and Investment Survey, 1961-62", reprinted from *Reserve Bank of India Bulletin*, June 1965, p 2.

14 Tables with Notes on Some Aspects of Land Holdings in Rural Areas, Seventeenth Round, National Sample Survey Report No 144, Table 2, p 13.

15 National Sample Survey, No 74, Report on Land Holdings, Cabinet Secretariat, Government of India.

16 National Council of Applied Economic Research, New Delhi, "All-India Rural Household Survey", Vol II, "Income, Investment and Saving", Chapter 2, especially pp 28-31.

17 National Sample Survey Report No 144, *op cit*, Table 35, p 64.

18 Gulati, I S, *op cit*, and Kaldor, N, *op cit*.

19 Government of India, Planning

APPENDIX TABLE A-3 : DISTRIBUTION OF URBAN ASSETS, 1961-62 (AT 1969-70 PRICES)

Number of Households	Aggregate Value of Assets (Rs crores)	Average Value (Rs)
1,23,324	714.82	57,962.76
1,76,364	1,089.52	61,776.77
1,66,268	1,196.67	71,972.35
97,043	931.57	95,995.58
1,46,806	1,413.37	96,274.67
41,621	428.17	1,02,873.54
61,163	697.26	1,14,000.29
78,178	1,054.80	1,34,922.80
46,297	769.40	1,66,187.87
51,858	809.30	1,56,060.78
30,641	550.85	1,79,775.46
29,784	583.44	1,95,890.41
37,067	860.08	2,32,033.88
17,445	400.67	2,29,676.12
20,534	575.45	2,80,242.52
18,649	561.22	3,00,938.38
11,768	393.89	3,34,712.78
9,279	340.07	3,66,494.20
12,025	511.02	4,24,964.65
4,697	246.97	4,61,933.10
2,802	146.91	5,24,304.00
5,816	317.25	5,45,477.90
3,944	247.41	6,27,307.30
2,718	204.47	7,52,281.00
1,771	145.91	8,23,828.30
3,003	248.49	8,27,472.50
2,500	263.33	10,53,320.00
584	71.37	12,22,089.00
1,748	299.93	17,15,846.60
133	25.74	19,35,338.30
177	41.78	23,60,451.90
300	101.29	33,76,333.00
113	55.42	49,04,424.70
65	35.20	54,15,384.00
114	119.07	1,04,44,736.84

Commission, "Report of the Committee on Distribution of Income and Levels of Living", 1964, Table 3.25, p 83.

20 National Sample Survey No 150, Seventeenth Round, September 1961-July 1962. Tables with Notes on Housing Conditions.

21 Government of India, Planning Commission, *ibid*, p 83.

22 Margaret G Reid, "Housing and Income", The University of Chicago Press, 1962.

23 NSS Report No 150, *op cit.*

24 *Reserve Bank of India Bulletin*, January 1963, *op cit.*

25 The property income assessed for income-tax in 1961-62 was Rs 38.67 crores. The estimated rent paid by urban households living in rented dwellings alone amounted to Rs 102.73 crores for that year. If the imputed rental incomes for owner-occupied dwellings and for non-residential buildings owned by households was also taken into account, the gross property income might have been about Rs 250 crores. Allowing 20 per cent for depreciation and maintenance, the net income would be around Rs 200 crores. On this conjecture, the assessed income in 1961-62 formed about 25 per cent of the property income. The number of assessees who reported property income was 2.48 lakhs. If this number was blown up in the ratios estimated to assessed property income, the number would be 9.92 lakhs. On the assumption that the top 10 per cent of the owner-occupied households own rented property also, their number for 1961-62 was estimated at 8.86 lakhs.

26 *RBI Bulletin*, January 1963, *op cit*, p 15.

27 National Sample Survey, Fifteenth Round, July 1959-June 1960.

28 *Ibid*, p 2.

29 NSS Report Number 99, *ibid.*

30 Government of India, Ministry of Finance, All-India Income-Tax Revenue Statistics, 1961-62.

31 *RBI Bulletin*, op cit, p 12.

32 L C Gupta, "The Changing Structure of Industrial Finance in India", Clarendon Press, 1969, p 143. The studies mentioned in the citation are: L C Gupta, 'An Enquiry into the Ownership Pattern of Industrial Shares in India', *Indian Economic Review*, Volume IV, Number 4, August 1959; R K Hazari, 'Ownership and Control: A Study of Intercorporate Investment', *The Economic Weekly*, November 26, December 3, and December 10, 1960; 'Survey of Ownership of Shares in Joint-Stock Companies as at the End of December 1959', *Reserve Bank of India Bulletin*, May 1962. A further inquiry was conducted by the Reserve Bank and the results were published in its *Bulletin*: 'Survey of Ownership of Shares in Joint-Stock Companies as at the End of December 1965', *Reserve Bank of India Bulletin*, February 1968. See also, R K Hazari, "The Corporate Private Sector: A Study of Concentration, Ownership and Control", Asia Publishing House, 1966.

33 L C Gupta, *ibid.*

34 R K Hazari, *ibid*, p 310.

35 *Reserve Bank of India Bulletin*, February 1968.

36 L C Gupta, *ibid*, p 154.

37 'Finances of Indian Joint-Stock Companies, 1961', *Reserve Bank of India Bulletin*, June 1963, pp 752-789, 'Finances of Small Public Limited Companies, 1961', *Reserve Bank of India Bulletin*, September 1963, pp 1157-1166. 'Finances of Private Limited Companies, 1963-64', *Reserve Bank of India Bulletin*, December 1965, pp 1843-1858.

38 *Reserve Bank of India Bulletin*, op cit, 1959.

39 L C Gupta, *op cit.*

40 *Reserve Bank of India Bulletin*, February 1968, *op cit*, p 139.

41 L C Gupta, *op cit*, p 157.

42 'Pattern of Ownership of Government Debt', *Reserve Bank of India Bulletin*, September 1963, pp 1167-1173.

43 Government of India, Central Statistical Organisation: (1) "Financing of Gross Capital Formation in India for 1948-49 to 1959-60" (1962); (2) "Capital Formation in India 1960-61 to 1965-66" (1969).

44 The exception to this is probably the NCAER study where the direct method has also been employed to estimate the savings of the household sector.

APPENDIX TABLE A-4 : DISTRIBUTION OF ASSETS IN THE URBAN SECTOR, 1969-70 (AT CURRENT PRICES)

Number of Households	Aggregate Value of Assets (Rs crores)	Average Value (Rs)
1,77,120	859.49	48,525.86
2,45,185	1,504.21	61,350.00
1,53,355	1,031.97	67,280.00
1,60,181	1,184.60	73,953.83
2,38,812	1,881.96	78,805.00
1,03,087	893.68	86,691.82
72,356	715.35	98,865.33
1,18,477	1,217.28	1,02,734.00
59,917	662.89	1,10,643.71
69,943	872.00	1,24,672.00
40,544	508.38	1,25,389.70
48,530	659.08	1,35,808.77
48,703	725.20	1,48,902.00
29,954	497.88	1,66,214.86
38,162	634.71	1'66,319.00
25,671	505.11	1'96,762.00
33,547	663.84	1·97,883.56
29,710	674.07	2'26,883.00
15,556	402.50	2,58,742.60
18,115	504.59	2,78,548.00
8,457	251.81	2,97,753.30
5,555	174.54	3,14,203.40
19,522	685.14	3'50,957.00
7,097	293.77	4,13,935.40
8,631	404.10	4,68,196.00
4,684	267.16	5,70,367.00
3,689	235.59	6,38,628.30
3,038	208.18	6,85,253.00
3,900	357.00	9,15,384.00
684	67.72	9,90,058.40
365	50.55	13,84,931.50
2,378	345.49	14,52,859.00
490	110.64	22,57,960.00
482	110.80	22,98,755.00
200	73.30	36,65,000.00
99	39.85	40,25,252.00
233	221.10	94,89,270.00

45 National Sample Survey, Fifteenth Round (Rural), Number 97, Tables with Notes on Capital Formation. National Sample Survey, Seventeenth Round, Number 136, Tables with Notes on Capital Formation (Urban).

46 National Sample Survey Report Number 136, p 1.

47 Reprint from *Reserve Bank of India Bulletin*, *op cit*, Table XX, p 28.

48 Government of India, Central Statistical Organisation, *op cit*, 1969, p 1.

49 'Pattern of Ownership of Government Debt — March 31, 1969', *Reserve Bank of India Bulletin*, May 1971, pp 686-705.

50 The adjustment of the values of shares, securities, and bonds for price changes is conceptually somewhat different from that for other items of assets and in practice more complicated. The market values of these items not only depend on the price level but also on the interest rates. It is to avoid these complications, that par values have been accepted without any price adjustment. For a discussion of these problems see Gurley and Shaw, "Money in a Theory of Finance", Chapter IV and the the Mathematical Appendix.

51 It is decided to use the same index for the rural and urban sectors on the evidence of the weights allotted to different inputs in the preparation of deflators for various types of construction given in the CSO study on capital formation. It is seen that there are only minor differences in the weights attached to these items for the rural and urban sectors (see Table).

52 *Reserve Bank of India Bulletin*, September 1965: 'All-India Rural Debt and Investment Survey, 1961-62—Outstanding Loans, Borrowings and Repayments of Rural Households', pp 1296-1393.

53 The National Sample Survey, Number 95, Tables with Notes on Household Indebtedness, Sixteenth Round, July 1960-June 1961, Table 2.12, p 46 and Table 2.16, p 48.

54 See N Krishnaji, 'Characterisation of the Pareto Distribution through a Model of Under-reported Incomes', *Econometrica*, Volume 38, Number 2, March 1970, pp 251-256.

TABLE TO NOTE 51

Inputs	Buildings	
	Rural	Urban
Cement	5	10
Iron and steel	5	5
Bricks and tiles	17	19
Logs and timber	30	34
Glass	—	—
Lime	10	4
Electric Goods	—	—
Labour	33	28
Total	100	100

Source: "Estimates of Capital Formation in India 1960-61 to 1965-66", Central Statistical Organisation, Government of India, 1969, Appendix 1.6, p 24.

FROM THE CHAIR

Golden Tobacco Company Limited

Speech of the Chairman, Shri Chatrabhuj Narsee

THE following is the speech by the Chairman, Shri Chatrabhuj Narsee, Golden Tobacco Company Limited, at the Sixteenth Annual General Meeting of the Shareholders of the Company, held on December 27, 1971:

LADIES AND GENTLEMEN,

I welcome you all to this Sixteenth Annual General Meeting of the Company which is the first such meeting after your Company became a Public Company in March 1971. The Statement of Accounts for the year 1970-71 and the Report of the Board of Directors have been in your hands for quite sometime. May I therefore take it that you have read them.

In the first two weeks of the current month historic events have taken place, namely the birth of free Bangla Desh and the emergence of India as a nation to be reckoned with. For all this we must pay our sincere tributes to our Prime Minister for her exemplary qualities of leadership, to our Armed Forces for their valour and supreme sacrifice, to the public at large for its discipline and fortitude, and to the Government and the people of USSR for their unstinted and consistent support.

In this context I cannot but commend and quote an extract from the editorial of *Economic Times* of 17th December:

"India's triumph also serves notice on the world. This country cannot be taken for granted any more. It is a power to be reckoned with — at any rate, in this region. Persistently, for decades, there has been a concerted attempt to bamboozle this country, hamstring its industrial growth and to decry any attempt of the national leadership to fulfil the country's destined goal".

In the most critical hours of our national life a bitter realisation has come to the people in this country that it is the nation's own strength that ultimately counts and not the dependence on any foreign interests, however friendly they may profess to be. This is very true of the political freedom of the country, and more so of its economic freedom.

COMPANY'S BACKGROUND

I consider it necessary at this meeting to aquaint you briefly with the background of your Company and the cigarette industry in general.

In 1930 when the Swadeshi Movement launched by Mahatma Gandhi was in full swing and was spear-headed by boycott of foreign goods, Golden Tobacco was founded by my father, the late Seth Narsee Monjee. Self-reliance is therefore the very foundation on which the edifice of your Company has been built. Starting with five men and a borrowed capital of Rupees five thousand, the Company grow from strength to strength, overcoming many a hurdle in its way: mainly the then alien rule which was against the development of indigenous industry and the monopoly enjoyed by the foreign companies, which by their vast resources and influence are still able to carry out their main object of eliminating competition, by means fair or foul. If your Company could survive the onslaught it was because of the indomitable spirit of the founder of your Company, the grim determination of the management to face challenges, the full mobilisation of resources and the all-pervading team spirit.

We had our reverses, yet we have fared well as will be obvious from the Accounts presented to you.

FOREIGN MONOPOLY

It is a pity that the cigarette industry even 24 years after the attainment of independence, is still dominated to the extent of 80 per cent of its production, market and total resources, by substantially foreign-owned and controlled companies. It was this crucial point on which hinged what one calls a 'controversy' in the cigarette industry. Particularly for the benefit of our new shareholders I would like to recount the salient points at issue.

In August 1970 the Chairman of Indian Cigarette Manufacturers Association brought to light the plight of indigenous cigarette manufacturers and pleaded for the implementation of declared Government policies, namely:

i) The expected increase in demand for cigarettes shall be taken care of by encouraging production by 100 per cent Indian-owned companies alone;

ii) Under the provisions of the Monopolies and Restrictive Trade Practices Act no further expansion shall be permitted to any group which is already a dominant/monopolistic undertaking;

iii) The foreign-owned monopoly cannot produce in excess of their registered installed capacity which it has been doing in direct contravention of the Industries (Development and Regulation) Act and to the great detriment of the indigenous sector which has 70 per cent

idle capacity;

iv) The relaxation sanctioned in the 1965 emergency for over-production/diversification to the extent of 25 per cent of installed capacity stands withdrawn in case of large industrial houses and foreign-owned companies.

ICMA also pointed out that:

a) The foreign-owned cigarette monopoly affiliated to a powerful world combine, has wiped out over 200 indigenous cigarette factories in the past four decades;

b) The cigarette production is controlled to the extent of 80 per cent by substantially foreign-owned companies, the share of the foreign monopoly alone being as much as 70 per cent;

c) Crores of Rupees in foreign exchange have been drained away in the form of remittances of dividends, profits, royalties etc and the drain has been increasing year after year. To add to it, the reserves and accumulated profits constitute a further liability in foreign exchange for repatriation in the years to come;

d) The share of foreign-owned and foreign-controlled cigarette companies went up from 68 per cent in 1965 to 80 per cent in 1969;

e) The monopoly hinders the growth of the indigenous sector by restrictive trade practices and its power which is inherent in any monopoly. Therefore the production of the foreign monopoly with the interconnected undertakings must be pegged and the future demand must be earmarked only for 100 per cent Indian companies in consistency with the government's declared policy and socialistic objectives.

the allegations and charges.

Such a measure is not without a precedent, because in the essential commodity industries like Soap and Match, the production of foreign monopolies was effectively pegged soon after independence, with the result that the indigenous sectors of these industries came up and flourished in no time. One is left wondering why such a step was not taken in case of cigarette industry.

When these facts were placed before the people and the Government in the national interests, the foreign monopoly got enraged and chose to embark on a tirade against your Company through massive propaganda. It was then that your Company was constrained in its own business interest to rebut the allegations and charges.

The Crusade and After

A positive outcome of our crusade is that it created awakening in the public at large as regards the futility of dependence on foreign capital or know-how, particularly in consumer industries where it results in exploitation and domination which are not in the national interest. This is now underlined by the attitude of some of the nations during the recent emergency of which you are all fully aware.

It is unfortunate that as if this was not enough, the foreign-owned and controlled companies have now adopted new techniques of brain-washing to make our people believe that they are Indian companies and are working in the national interest. I would now like to touch briefly on some aspects of this new development.

The real character of a Company is determined by its ownership and control. A substantially foreign-owned and controlled company cannot become an Indian company just by Indianising its name or by Indianising its Chairmanship or Board of Directors or by such other gimmicks.

An Inviolable Sanctity

There is a widespread feeling against open or subtle commercialisation of the country's proud name by adopting it for a company or a brand name. I hope and trust that before long the Union Government will take concrete steps to prevent such violations of the sanctity of our country's name for the ostensible purpose of identification with the country and its national aspirations.

Your Company is truly a national company by virtue of its cent-per-cent Indian ownership, control, management and know-how. Your Company therefore need not make loud claims of lending a helping hand to any sector of our national life. We are an integral part of each of these sectors and are interwoven with them.

The people of this country with their innate common sense and keen sense of discrimination cannot be taken in by any make-believe stories or by any image-building antics. They know what is what. Healthy employer-employee relations, giving legitimate assistance to the suppliers of raw materials, helping development of ancillary units which contribute to the prosperity of the parent unit, extending fair treatment to the trade, working hard to make the business profitable for those who own the Company, contributing to the exchequer and supporting policies of the Government, are pre-requisites for the success of any business organisation. I am therefore pained by the audacity of those who make loud proclamations of these normal activities which to my mind are only acts of self-aggrandisement.

Accent on Self-Reliance

What is of paramount importance is not the material achievement and its publicity, but the ideal one lives and works for — whether as an individual, as an organisation or as a nation. As already pointed out earlier by me, your Company from its very inception has been advocating and working for the ideal of Swadeshism from which stems true self-reliance and we shall continue to assert that the pride of place in every economic activity must go to the indigenous sector in this free country. This legitimate right and justice cannot any longer be denied.

Our Performance

Coming to the operational side of your Company, you will observe that the sales turnover increased from Rs 32.68 crores to Rs 39.60 crores during the year under review. The profit before tax, after providing for depreciation and development rebate, increased from Rs 111.96 lacs to Rs 131.66 lacs. The two important factors which affect profitability are the heavy and increasing impost of Central Excise on tobacco, cigarettes and various materials used in the manufacture of cigarettes and the rising costs due to general inflationary trend.

The sales of your Company during July/November 1971 was Rs 17.45 crores as against Rs 14.37 crores for the coresponding period last year. In spite of the temporary setbacks like floods in various States, cyclone in the Eastern coast, tense situation on the Eastern and Western borders and the resultant demoralising effect on the traders reflected by their unwillingness to keep normal stocks and also the financial stringency, we have been able to maintain the level of our sales. The month of December witnessed an active war on the country's borders hampering normal trade activities and also movement of goods. These effects will not last long, now that the victory of our Armed Forces has cut short the war.

The temporary surcharge of 15 per cent on unmanufactured tobacco levied by the Union Finance Minister on 13th December 1971 adds to our costs, but this levy is being absorbed instead of being passed on to the consumers. In a national emergency one should willingly give and give till it hurts.

Our new cigarette factory at Baroda is under construction and is expected to go on stream by the middle of next year. Apart from the nine brands which we now manufacture and market, we have plans under way to add to the range.

Record Export of Panama

You are aware that your Company achieved a record of exporting 400 million Panama cigarettes to USSR in a short period of 7 months and earned foreign exchange to the tune of Rupees One Crore. The USSR is expected to extend further the scope for import of consumer goods from India under the new trade pact and your Company is naturally hopeful of securing further orders in future.

Your Company has its main Tobacco Purchasing Division at Guntur, 4 tobacco redrying plants, 8 grading and stripping depots and a network of 32 buying points spread all over Andhra Pradesh. We also have tobacco buying establishments in Gujarat and Mysore States. In order to carry out successfully the functions relating to our requirement of tobacco, the main raw material, we extend to the tobacco cultivators of the regions our cooperation by way of financial loans for purchase of inputs like fertilisers and improved seeds, construction of barns for tobacco curing, aiding in scientific and improved methods of cultivation and, most important of all, helping them secure fair price for their produce. All this in the face of the monopolistic control over the cigarette tobacco trade by a foreign monopoly.

Bright Prospects

With the implementation of the recently declared policy of the Government of India to encourage only wholly Indian owned companies to take care of the increase in demand of cigarettes, the chequered history of the indigenous cigarette industry is a thing of the past. I now foresee a very bright future for this sector. This optimism of mine is further justified by several other contributory factors like the rapid urbanisation aided by the green revolution, changes in the living habits and the changing pattern of income distribution leaving more and more discretionary spending power in an increasing number of hands.

Before I conclude, I would like to place on record my sincere thanks to my colleagues on the Board and the employees of the Company for their devotion, loyalty and hard work and for the continuing harmony in their relationship built up by healthy traditions over the years. I must also express on behalf of your Company our deep gratitude to the trade and the millions of our patrons whose active support and cooperation largely contribute to what we are and to what we will be in the years to come.

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

The National Newsprint and Paper Mills Ltd

Regd Office : Nepanagar, MP

Speech of the Chairman, Shri Hari Singh

THE following is the Speech delivered by Shri Hari Singh, Chairman, Board of Directors, at the Twenty-fourth Annual General Meeting of National Newsprint and Paper Mills Limited, held at Nepanagar, on Friday, December 31, 1971:

Gentlemen,

It gives me great pleasure to welcome you to the 24th Annual General Meeting of your Company. The Directors' Report and audited accounts for the year ended 31st March, 1971 have been in your hands for some time now, and with your permission, I shall take them as read.

Overall Performance

The Profit and Loss account for the year, shows a net loss of Rs 52.25 lakhs after providing for depreciation of Rs 56.83 lakhs and interest on Government loan amounting to Rs 22.06 lakhs, as against a loss of Rs 92.45 lakhs in the previous year. In my speech to you at the Annual General Meeting last year, I had mentioned that the use of imported pulp was not economical owing to its high cost, and as such your Directors had decided to limit the production to the availability of pulp from our existing plants. I may mention that the stoppage of the use of imported pulp has resulted in substantial savings as reflected in the drop in the loss during the year.

As interest charges on Government loan are a heavy burden on the financial structure of the Company, your Directors have already approached the Government of India for converting a part of the loan into equity capital.

The total accumulated loss upto 31st March, 1971, to be set off against future profits, is Rs 90.14 lakhs. Besides, the Company is also entitled upto 31-3-1971, to a development rebate of Rs 141.29 lakhs. To obtain a substantial benefit in Income Tax, arising out of our entitlement to development rebate, the Company is required to create a reserve of Rs 105.47 lakhs by debit to the Profit and Loss account. However, due to losses in the last two years, no reserve could be created, apart from Rs 23 lakhs set aside in 1968-69. Thus the balance reserve of Rs 82.47 lakhs will also be a charge on future profits.

Production

The production during the year, from both the machines, was 37,270 tonnes, including 1,057 tonnes of writing and printing paper, as against 39,275 tonnes of Newsprint in 1969-70. The drop in production during the year is due to the stoppage of the use of imported pulp. The Caustic Soda Chlorine Plant, with a rated capacity of 3,600 tonnes of Caustic Soda and 3,000 tonnes of chlorine, produced 3,354 tonnes of caustic soda and 2,986 tonnes of Chlorine during the year, as against 3,091 tonnes of Caustic Soda, and 2,743 tonnes of chlorine in the previous year. Your Caustic Soda Chlorine Plant, is a captive unit and as such its production is restricted to our actual requirements for the production of newsprint.

Cost of Production

Though a substantial saving of about Rs 181 per tonne was achieved during the year by stopping the use of imported pulp, the overall per tonne produc-

tion cost during the year showed a decrease of about Rs 73 only when compared to the previous year's cost of production. This is due to a higher burden of over head charges on lower production, and to an increase in the cost of wires and felts, chemicals, stores and rise in salaries and wages.

Sales

Sales during the year were 35,645 tonnes of newsprint and 1,040 tonnes of writing and printing paper fetching a revenue of Rs 419.65 lakhs, as against the previous year's sale of 39,275 tonnes of newsprint yielding a revenue of Rs 434.37 lakhs. Though the quantity sold during the year was less by 2,712 tonnes, which would have normally resulted in a decrease of Rs 29.83 lakhs in revenue at the selling price of Rs 1,100 per tonne, the actual decrease in revenue was only Rs 14.72 lakhs. This was due to the extra revenue earned by the sale of writing and printing paper at Rs 1,950 per tonne and to the revision of selling price of newsprint to Rs 1,350 per tonne in respect of the sales made through the agents.

The selling price of newsprint to the Press remained unchanged during the year under review. However, as a result of the repeated representations made by the Company, urging the need for revising the selling price of newsprint, I am happy to report that the Government of India has very kindly increased the selling price of newsprint to Rs 1,362 per tonne with effect from 1-9-1971.

Expansion and Development

During the year under review the erection work of the causticizing plant was completed and the plant was partly commissioned. Except for a few items which are expected to be received shortly, all equipment for pulping and recovery plants have been received at site. The civil construction of the buildings for these plants is, however, held up owing to the non-availability of structural steel. Vigorous efforts are being made to procure steel through the help of Government of India. The expansion scheme is estimated to cost Rs 1,269.13 lakhs, out of which the cost of machinery received and the civil construction works completed since the commencement of expansion upto 31st March, 1971, was Rs 916.94 lakhs, of which Rs 724.11 lakhs has been paid by that date, the balance being payable mainly on deferred payment terms. It is now expected that the entire expansion scheme will be completed by the end of 1973-74.

Raw Materials

As you are aware, your Company holds on a long term lease certain Bamboo forests in Khandwa, Hoshangabad and Betul Districts of Madhya Pradesh. The Company was also allotted from 1963-64 onwards seven bamboo felling series in the same districts on an annual basis, the lease being renewed each year. To meet our increased requirements consequent on our decision to base production only on pulp produced in our own pulping units, the Government of Madhya Pradesh allotted to us 13 bamboo coupes again in the districts mentioned above, for the working season 1970-71. Efforts to procure all the Bamboo and Salai areas required by us on a long term lease and to settle the rates of royalty and other terms with the Government of Madhya Pradesh are being made.

As mentioned in my speech last year, we worked certain bamboo coupes departmentally last year instead of through contractors. Departmental working of selected bamboo coupes was continued during the year under review also and a quantity of 8,918 tonnes of bamboo pulpwood was extracted, resulting in considerable savings in the cost of extraction.

Employee Relations

Ex-gratia payment of Rs 4.61 lakhs at the rate of 1¼ months' pay and allowances, subject to a maximum of Rs 360/- per head was made during the year to the employees, the figure for the previous year at the same rate being Rs 4.12 lakhs. I am glad to inform you that our relations with our employees continue to be happy and cordial.

Management

Shri M A Khan, our Government Director from Madhya Pradesh, resigned during the year and in his place Shri B V Vora was appointed as Director. I join my colleagues on the Board in placing on record our sincere appreciation of the valuable advice and guidance given by Shri M A Khan during his tenure of office as Director.

On behalf of the Shareholders and the Board, I wish to thank all the workers and staff for the hard and conscientious work put in by them in maintaining the high standards of the performance of the Company. Your Board of Directors appreciates that the shareholders have had to go without dividends for a second year in succession. I would request you on their behalf to bear with us for some more time, as we have undertaken a large expansion programme, requiring a heavy investment, and I have no doubt, that very soon we would have passed a difficult phase and a brighter future will emerge.

Finally, I wish to express my deep gratitude to my colleagues on the Board for all the support, advice and guidance they have readily extended to me. My thanks are also due to the Government of India, the State Government of Madhya Pradesh, the shareholders and our customers for their guidance and continued patronage.

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

Parrys Confectionery Limited

Speech of the Chairman, Mr H V R Iengar

THE following are excerpts from the Speech of Mr H V R Iengar, Chairman, Parrys Confectionery Limited, delivered at the Seventeenth Annual General Meeting of the Company held on December 29, 1971 at Madras:

The results for the year show a profit of Rs 15,51,342. The profit after tax is Rs 6,11,378 compared with Rs 6,75,693 last year.

The increase in sugar prices after decontrol in May 1971 and prices of other raw materials pushed up the cost of production. A corresponding increase in selling prices was not possible and would have meant a decline in sales. However, the net profit after tax was sufficient to declare the same dividend as last year, *viz*, 18 per cent. After meeting the dividend, Rs 50,000 has been transferred to General Reserve and Rs 39,000 to Development Rebate Reserve leaving a surplus of Rs 18,610 carried forward.

Lack of adequate supplies of cellophane led to curtailment of production and the factory could not work to full capacity, rendering about ten per cent of the labour surplus.

Machinery worth Rs 5.5 lakhs was imported during the year.

The Malaysian factory went into production in December and initial sales were satisfactory.

Prospects for the current year are likely to be affected by the new sugar policy which will entail the confectionery industry having to depend on high priced free market sugar. Nevertheless efforts will be made to continue the present level of profitability.

Note: This does not purport to be a report of the proceedings of the General Meeting. The full text of the Speech has been sent to all Shareholders.



7 years old and in 35 places all at once

In just seven years Gujarat Steel Tubes account for 10 per cent of the country's total exports of steel tubes and pipes. Earn over a crore in foreign exchange. Are in demand in 35 countries all over the world. Including sophisticated markets such as U.S. and West Germany.

Since 1966 we have increased our exports by 220 per cent—twice winning Engineering Export Promotion Council awards. Today we are among India's largest exporters of steel tubes and one of 73 export houses recognised by the Government of India.

We started with advantages: the enthusiasm and enterprise of youth. Sound technical know-how. An uncompromising dedication to quality. All of which enabled us to declare a dividend in our first year of production.

Since 1966 we have doubled our sales. And added the most modern welding technique—TUFFWELD—high frequency induction welding.

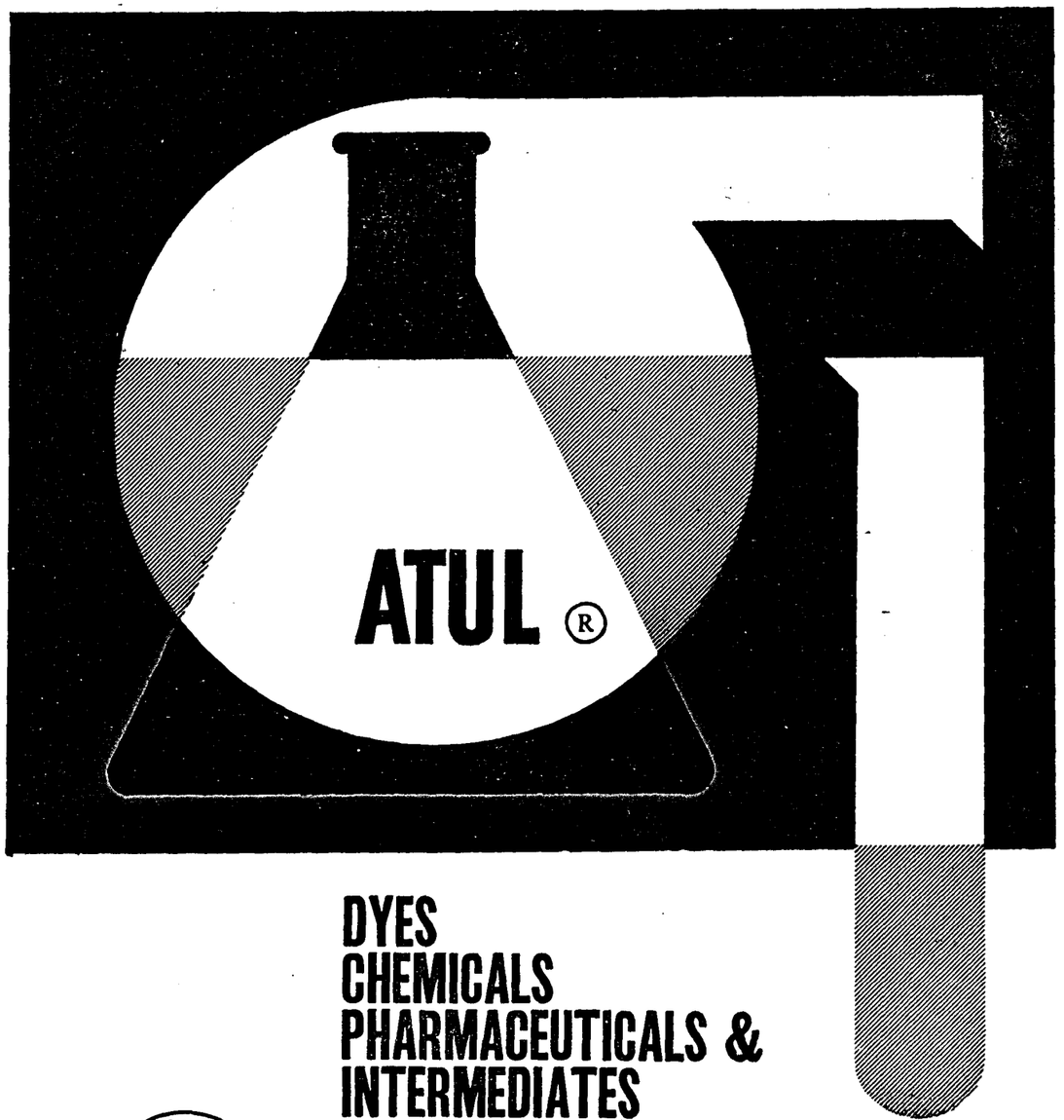
We look forward to the future with confidence. A confidence born of achievement. The trust of our dealers. The satisfaction of customers. Above all, the unsurpassable quality of our products.

GST

GUJARAT STEEL TUBES LIMITED,
Bank of India Bldg., Bhadra, Ahmedabad 1

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January 1, 1972 Regd No MH — 1393



DYES
CHEMICALS
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THE ATUL PRODUCTS LIMITED ATUL, VIA. BULSAR, WESTERN RAILWAY

REGISTERED TRADE MARK

ECONOMIC AND POLITICAL WEEKLY

A Sameeksha Trust Publication Rs 1.25 Vol VII No 2 January 8, 1972

JOINT SECRETARY TO G... INDUSTRIES D... 17 JAN...

NEW CENTRE-STATES EQUATION IN PLANNING

RELIGION IN POLITICS

THE RESERVED CONSTITUENCY

MAHARASHTRA CONGRESS: FROM PARTY TO FACTIONS

GROWTH OF SMALL TOWNS



ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

Vol VII No 2 January 8, 1972

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Doing without Aid—and How!

AFTER the reports about Nixon and Rogers proposing to take a long and hard look at aid to India, the only self-respecting thing the Government can do is to announce its irrevocable decision not to accept American aid. This should relieve President Nixon of his worries and also permit him to devote his full attention to the important task of liberating the Vietnamese people from themselves.

While the political case for not accepting American aid (should it be offered) is clear, it does not help to minimise or wish away the significance of this action for the course of the economy in the next two or three years. It is simply not correct to say, as some high economists in the government are reported to be saying, that American aid is worth only Rs 150 crores—and that, in any case, this can be made up by increased exports.

The figure, insofar as any sense can be made of it, is based on two assumptions. The first assumption is that India would either default on its repayment liability to the United States on past loans or that it would ask for debt relief and get it. The possibility of default is a matter of some importance, and serious consideration of this course would seem to run counter to the spirit of the country's determination to do without aid and what the Prime Minister has been saying in her public statements. Debt relief, on the other hand, is exactly equivalent to that much fresh aid and is regarded as such by all parties.

The second assumption is that aid-financed purchases from the United States are 50 per cent more expensive and that these purchases can easily be diverted to other sources. Unless we have been excessively generous (or stupid) in negotiations with US suppliers, then prices of US equipment and materials ought not to be anywhere near that much higher than those of equivalent imports from other sources. The price differential has, moreover, been significantly reduced by the recent changes in currency values. Also, the possibility of switching to other sources of supply is limited by a number of factors such as the nature of the original equipment in case of spare part imports or the fact of the United States being the major world supplier of certain raw materials.

It is useless to pretend that stoppage of US aid is quantitatively not particularly significant or that its impact can be easily absorbed within the present pattern of development. What aid stoppage means is that the situation of 'zero net aid' visualised by the Planning Commission for 1980-81 would be already here—a decade in advance and without the country having made any special effort to prepare for it. US aid has been in the past equal to 20 per cent or more of India's imports (which are by definition all 'essential') and roughly 40 per cent or more of all aid utilised by the country has come from United States sources. Non-availability of this amount of aid cannot but have certain major implications for the pattern of industrial production and consequent import requirements in the years ahead which need to be considered in any serious effort to do without US aid.

Outside of short-term balance of payments support available from the IMF, foreign exchange availability during any period depends on exports, aid utilisation (out of new as well as past commitments) and use of reserves. The estimate of exports for the remaining years of the Fourth Plan (1971-74) presented in the Mid-Term Appraisal is Rs 5,327 crores. Assuming no net change in reserves, no fresh aid from the United States, and an extra-rapid depletion of the aid pipeline, total aid likely to be available during this period can be estimated to amount to no more than Rs 1,650 crores. Total exchange availability during this period is thus likely to be in the neighbourhood of Rs 6,977 crores on somewhat optimistic assumptions. Against these receipts, there are payment obligations of Rs 1,559 crores on account of debt servicing and other invisible and capital transactions. This leaves Rs 5,418 crores for financing imports during the rest of the Fourth Plan, which is Rs 1,240 crores (or Rs 413 crores a year) less than the revised estimates of import requirements presented in the Mid-Term Appraisal. The crucial question that the Planning Commission and the government should be pondering over is: how are we going to reduce our import requirements by nearly 20 per cent and still revive industrial production within the framework of the existing industrial priorities?

An honest answer may demand not only a reshuffling of priority lists, but also a more basic re-examination of industrial strategy and the pattern of the current output resulting from it. A large part of our imports (e g, raw materials and spare parts) are for sustaining the existing industrial structure, and the question which needs to be faced is whether the country ought to be committed to supporting the present high-income consumption oriented industrial

structure. This industrial structure reduces savings (as the Mid-Term Appraisal explicitly recognises), diverts investible resources to what are—judged by the requirements of the vast majority of the population—non-priority lines, creates islands of inefficiency in the production structure, puts pressure on balance of payments through very large maintenance imports and generally dampens the rate of development.

But the government appears scarcely in a mood to see things in this light. In the last few months the Ministry of Industrial Development has regaled us with statistics of the number of industrial licences and letters of intent issued without appearing to be even conscious of the need for ascertaining what kind of a final output (and consumption) structure will result from all this. More recently, the Ministry has liberalised licensing provisions to enable industrial units in 54 industries to produce up to twice their licensed capacity. The list covers a wide range of industries from sanitary cans, and paints and varnishes to cotton textiles and synthetic fibres. If the approach to industrial development implicit in these policy measures succeeds, then we may perhaps expect to see a good year for the much-maligned index of industrial production. But we can also be sure of seeing another foreign exchange crisis and another round of cuts in the levels of public investment. However, it may be that by then we would have made up with the United States and taken our rightful place at the head of the aid (and AID) queue!

Tamil Nadu

Falling Yield of Paternalism

IT was to be expected that the Tamil Nadu government would make the strike by the workers of the Simpson group of companies into a state *versus* centre issue. This was Chief Minister Karunanidhi's last card, so to say. Earlier, having found that the overwhelming majority of the 16,000 or so workers of the group were (in spite of the violence unleashed against them) behind the strike called by the joint action committee consisting of leaders of parties other than the DMK, the Chief Minister had sought to adopt a mixed carrot-and-stick approach. He announced on Tuesday the state government's decision declaring the Simpson group of companies an essential service under Section 119 of the Defence of India Rules. This rendered the strike illegal and placed the workers under a statutory compulsion to return to work. At the same time, Karunanidhi announced the appointment of a court of inquiry, consisting of a judge of the Madras High Court, to go in to the "grievances of the workers". The next day the Chief Minister announced two further concessions. First, he offered to release all workers arrested during the strike, except those facing trial on specific charges. Even the cases of the latter he said he would examine. Second, he said he had persuaded the management of the group of companies to take back 288 dismissed workers and revoke the suspension of 37 others.

However, neither the invoking of the Defence of India Rules nor the concessions offered by the Chief Minister had the desired effect. The vast majority of the workers stayed away from work and the city police commissioner, while claiming that there had been an improvement in workers' attendance, very discreetly refrained from giving any figures. This left the state government with the prospect of enforcing the DIR, arresting very large numbers of workers and making another attempt to intimidate the workers by subjecting them to some more violence. The failure of earlier attempts in this direction as well as the widespread attention which the strike had by then attracted persuaded the Chief Minister to stay his hand and instead raise the bogey of central intervention in the affairs of the state. Following this strategy, he turned down the Union Labour Minister's request to send the state Labour Minister to New Delhi for talks. This was a sort of gut reaction on the part of the DMK boss, since even if the centre had gone through with the proposed talks it is problematic that any startling results would have been achieved. Clearly, the centre is in no mood to heed the demand for take-over of the affected companies!

The history of the present dispute in the Simpson group of companies goes back to last April when a long-established, stable union enjoying the confidence of the workers, was disrupted by the DMK's Progressive Labour Federation, with the active support of the state government and the connivance of the management of the companies. It is a measure of the sincerity of the Congress and Communist trade union leaders who are so staunchly backing the present strike, and demanding the ouster of the DMK leadership of the union, that at the time of this forcible take-over of the union by the DMK they on the whole preferred to look the other way. If their calculation was that the disruption of the established and essentially non-political union by the DMK would eventually give them the chance to fish in troubled waters, then the recent developments have proved them right.

For the DMK, the Simpson strike which has shown that it does not command the support of even a small minority of the workers of the companies, is a setback to the party's policies towards industrial labour. The DMK has been following an aggressive policy of imposing, through strong-arm tactics if necessary, party unions in collusion with managements. And even where the unions remain non-DMK the state goverment has sought to play an active role in union-management negotiations. Managements have so far applauded this paternalistic labour policy of the government in the hope that it would ensure industrial peace while moderating labour's demands. This expectation was on the whole realised, and Karunanidhi was able to boast about the state of industrial peace in Tamil Nadu, so long as the Congress and the communist parties were prepared to be the DMK's loyal camp-followers in Tamil Nadu politics. Now with this latter condition no longer obtaining, the dividends from government paternalism—for both the DMK as well as for company managements—will be progressively reduced. The Simpson case is a pointer to that.

Mid-Term Appraisal

Inflationary Bias

A Correspondent writes:

THE Mid-Term Appraisal of the Fourth Plan has done an excellent job with regard to the refinement and presentation of data, particularly data on national income and its components. The savings and investment estimates are rightly related to national income at market prices. Further, the implications for raising the rate of investment in the public sector have been very well brought out by the way in which the public sector accounts have been presented in relation to the national income components.

However, there has been a crucial omission in the presentation of the data and this affects very vitally the entire picture with regard to the resources position for the public and the private sectors. The Appraisal gives the data on resources for the entire private sector and does not give a breakdown of the private sector as between the private corporate sector and the household sector. This is an important omission.

As the Appraisal itself points out, the resources which are available for transfer from the household sector are those which are held in the form of financial assets. The deficits of the government and the private corporate sector are met out of this net financial saving of the household sector. The Appraisal gives the net financial saving of the household sector for the whole Fourth Plan period at Rs 7,570 crores. It puts the draft of the public sector on household sector savings at Rs 6,732 crores. Thus, the household sector saving which is available for financing the private corporate sector gross investment is Rs 738 crores. The gross saving of the corporate sector (including the co-operative sector) is put at Rs 2,276 crores. Thus, in all the resources available to the private corporate sector for financing gross investment (including inventory investment) would be Rs 3,014 crores. To this must be added the transfer from the public sector to the private corporate sector. This is unlikely to exceed Rs 250 crores.

The current rate of gross investment, including inventory investment, in the private corporate sector is around Rs 800 crores. Even if one assumes that there would be no pick-up in private corporate sector investment—though the government obviously considers this to be essential—the total requirement of resources by the private corporate sector would be around Rs 4,000 crores. Thus, there would be a gap of around Rs 700-800 crores as far as the private corporate sector is concerned.

One does not know from the Appraisal how this gap is to be filled. If the financial institutions meet this gap—and this gap will be wider if there is an acceleration in the rate of investment—the public sector draft will have to be smaller. Alternatively, Reserve Bank credit to the government would have to be larger. In any case, if the Plan estimates are correct, there is a built-in inflationary bias in the estimates as a result of serious technical flaws in Plan formulation.

Malta and Libya

A Novel Relationship

DUE to its strategic position between the southern tip of Europe and the North African coast and astride the trade routes from the West European ports to the Middle East and beyond, Malta has been fought over by generations of conquerors and seafarers. Only in the last few years have the British and other naval powers realised that in modern conditions, island bases are more a political and military liability than an asset. And since Malta got its independence from British rule in 1964, successive Maltese governments have been trying to obtain a higher price from the British for the use of naval and air bases. In fact, the Maltese have been in need of greater financial aid because of the declining British use of the island's service and repair facilities to which the country's economy has long been geared. The Maltese request for more money as compensation for the economic losses suffered, has not been met with great favour by the British who have their own economic worries.

The British position on the island was, however, fairly secure while Malta had a Nationalist government with Borg Olivier as prime minister. The British did their best to keep Borg Olivier in power, but six months ago Dom Mintoff became the prime minister after his Labour Party won the general elections with a single-seat majority. The thin majority did not deter Mintoff from sacking the British Governor-General and replacing him with a Maltese and then demanding a steep price for any continued British presence on Malta.

It now looks like he deliberately set an impossibly high price—£ 18 million—for allowing British and NATO forces to stay on. In the face of these demands, they have chosen to withdraw all their forces from Malta by the end of March. Apart from the diminishing strategic position of the Maltese bases, the other reason for the lack of alarm among NATO circles is the calculation that the Russians are not too keen to step in and subsidise the economy.

The Maltese Prime Minister is, however, not acting out of sheer bravado. He seems to have got assurances of large-scale aid—said to be of the order of £ 30 million—from the Libyan leader, Colonel Ghaddafi, whom he has met more than once during the last few months. Ghaddafi's oft-repeated concern has been to ease all non-Mediterranean powers out of the Mediterranean, particularly the Russians and Americans as well as the British. Subsidising Malta is probably regarded by him as a step towards this altruistic goal. Another—less ambitious—reason could be to acquire the off-shore oil rights of Malta, so as to pursue the so far highly successful Libyan path of getting a firmer grip of oil resources and revenues. Maltese oil rights would be a useful bargaining counter in Ghaddafi's battle with the Western oil companies. The Libyan example of pursuing its own interests by helping another small country to resist the blandishments of the big powers is certainly a novel feature in post-War international politics.

Agriculture

Green Only in Patches

A Correspondent writes:

THE success of the agricultural plan cannot be measured only by the rise in production. The Mid-Term Appraisal of the Fourth Plan shows awareness of this in its assessment of the progress in agriculture. Taking 1969-70 and 1970-71, the Appraisal says, "the agricultural sector recorded the requisite annual growth rate of 5 per cent. This was, however, largely a reflection of a substantial increase in cereal production. As regards pulses, while the production in 1969-70 and 1970-71 somewhat recovered from the abnormally low level reached in 1968-69, production remained below the base level assumed for the plan. Among commercial crops, while oilseeds and sugarcane recorded significant increases, production of cotton and jute remained substantially below the base line production specified".

The more reliable measure of pro-

Annual Number 1972

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

In view of the Annual there will be no weekly issues on January 29 and February 5 and 12.

gress in agriculture is the change in the physical conditions of farming and in the institutional infrastructure. Judged against the physical targets, the shortfalls are many. Production of nitrogenous fertilisers was 9.30 lakh tonnes in 1970-71 and is expected to go up to 18 lakh tonnes by 1973-74 as against the target of 25 lakh tonnes. Similarly, production of phosphatic fertilisers at 2.29 lakh tonnes in 1970-71 and at 4.58 lakh tonnes in 1973-74 would be much below the target of 9 lakh tonnes. In diesel engines, we may reach 60,000 by 1973-74 as compared to the target of 2 lakhs. The shortfall in construction of storage capacity is likely to be sizeable, the total construction of owned storage capacity being only about 18 lakh tonnes during the first two years of the Plan as against the target of 65 lakh tonnes for the five-year period. On the plus side, we are likely to achieve the targets of tractor manufacture, high-yielding varieties programme, multiple cropping, minor irrigation, soil conservation and manufacture of electric motors.

What lessons may be drawn from this picture of achievements and shortcomings? Clearly, the growth of agricultural production, even cereal production, cannot be taken for granted. The agricultural strategy may even have to be revised in certain respects. For instance, the failure on the commercial crops front is too glaring to be ignored. No doubt certain additional measures have been taken such as intensification of research and introduction of area development schemes for specific crops. These measures may have to be combined with certain others. A guaranteed procurement programme at prices announced sufficiently in advance and perceptibly higher than the current market prices for the traditional varieties may have to be introduced so as to encourage the production and development of new high-yielding varieties of commercial crops. Perhaps more important is the establishment of development corporations for each of the major commercial crops, particularly cotton, jute and oilseeds. If such development corporations are established, there will be specific agencies to look after research and development work for particular crops. In the absence of such an arrangement, the efforts are scattered and *ad hoc* and a large proportion of funds allocated for development programmes are eaten away by administrative expenditure. Even for minor irrigation, one may think of a separate development corporation so that not only is there faster growth of minor irrigation sources, but also restoration of old sources. As it is, while we are busy digging new wells, there are a large number of old wells which need repairing and deepening.

While the above innovations in the development apparatus are necessary for the fulfilment of the Plan's physical targets, the problem of reducing imbalances and sustaining farmers' enthusiasm for progress has to be tackled mainly through proper marketing arrangements, price stability and credit availability, besides changes in the land system so essential to improve productivity on large holdings and tenanted lands. Along with steps to reduce the ceiling on holdings, the process of removal of absentee landlords needs to be completed. There are still large number of absentee landowners who do not stay in the villages where their lands are situated and who do not cultivate their lands. If absentee land ownership of this type is abolished in the case of all holdings above 5 acres, a major step would have been taken towards establishing self-cultivation.

BUSINESS

Necessary Linkages

EVEN as production of fertilisers has lagged behind targets and capacity utilisation has been low, manufacturers have begun to feel anxious about consumption failing to grow as planned. They have, therefore, been taking increasing interest in fertiliser promotion and marketing, even undertaking extension services and demonstrations. The Fertiliser Association of India (FAI) has at the same time begun to make a more thorough job of presenting fertiliser statistics, distinguishing, for 1967-68 onwards, between distribution and consumption with a view to identifying factors that inhibit growth of consumption. The National Commission on Agriculture, too, has recommended that there would be proper estimation of fertiliser needs based on agricultural programmes to be followed by a study of factors inhibiting its use in specific regions.

It may be that the projections of fertiliser requirements were unsound; also it would certainly be instructive to know the factors inhibiting fertiliser use. But the most vital link for the fertiliser industry is with the agricultural programme. To the extent, and for the reasons, that this programme has suffered, the fertiliser industry's more distant fortunes are bound to be affected. It is, therefore, pointless to brood over the contraction in the number and spread of retail points in recent years, as the Fourth Plan's Appraisal does, or to hope that these can be increased, unless the basic factors holding back the achievement of agricultural targets can be substantially altered.

Here, both the state-wise consumption data and their associated conditions provided by the FAI as well as the Mid-Term Appraisal of the Fourth Plan yield some pointers. An analysis of consumption among the states underscores that growth in fertiliser consumption has been relatively steady where the high-yielding varieties and the multiple cropping schemes have been systematically pursued. The most obvious instances are Punjab and Haryana, where the new wheat varieties have made a headway. In Andhra and Tamil Nadu, fertiliser intake has of late been good and seems to be associated with an increasing area under HYV of rice. In Mysore, fertiliser application per hectare has failed to catch up, although the area under HYV has increased. UP has been consistently the highest consuming state for nitrogen, relatively unaffected in this by drought or flood, thanks again to the HYV coverage. Rajasthan and Orissa, where the new technology has not made any significant thrust, are noticeably static in their consumption of fertilisers. Gujarat and Maharashtra have an unclear record. In West Bengal, the jute growers have failed to take to the recommended doses of fertiliser. By and large, however, the rate of rise in consumption is tending to slow down.

This is explicable with reference to three factors: first, the spread of HYV wheat has more or less covered the farmers who had the wherewithal to use it; second, the success of HYV in the country's major foodgrain, rice, has been far slower than expected. Otherwise, rice would have absorbed a sizeable portion of the fertilisers. Third, the almost total absence of any technological breakthrough in commercial crops such as cotton, jute, oilseeds—

or even any organised effort to promote a package of improved practices for these crops. It is not surprising, then, that it is states such as Maharashtra, Gujarat and West Bengal which have been lagging in fertiliser consumption. While the responsibility of the government for agricultural development programmes is clear enough and, under pressure of unsold stocks, even the fertiliser industry might be expected to make an extension and promotion effort of sorts, what is truly mystifying is the almost complete lack of interest that the industrial users of commercial crops like cotton, jute, and oilseeds, have shown in any programmes to modernise their cultivation—among other things, through greater use of fertilisers.

Sugar

Given Rein ...

THE game is being played again and, as last year at election time, with determined feverishness. There has been the same carefully nursed atmosphere of an impending sugar famine, employing the usual over-simple arithmetic that there has been a decline of about 10 to 15 per cent in area under cane so that sugar production would fall to 3.2 or 3.3 mn tonnes — an argument which is untenable since sugar mills absorb only about a third of the total cane and pay rather higher prices than gur or khandsari. Prices of sugar thus began to rise markedly towards the end of 1971. The fact seems to be that sugar mills were actually getting ready to make their kill once partial decontrol was reintroduced in January 1972. Sugar was therefore not readily available at the end of the year.

The 200-odd sugar mills with their vastly varying efficiencies had, after all, never welcomed full decontrol—the marginal mills because, with the easier supply position especially since 1969, they would never get the 'support' of the levy price for their lower free market price and the more efficient mills because under a quota system they could not hope to cut into the markets of other mills. Now, with partial control reimposed, they can make the most of discriminatory pricing. While the levy price of Rs 2 per kg still covers costs, the balance 'free' demand which has increased in the years of relative plenty can now be made to bear the higher prices. Prices have risen sharply. In less than a fortnight the industry, by regulating releases, has successfully pushed up prices of the 40 per cent 'free' sugar by nearly Rs 60 per bag. Current prices at the various trading centres are:

	(Rs per quintal)
Ahmedabad	285
Bombay	290
Calcutta	270
Delhi	292
Patna	231
Shrirampur	246

The government seems least inclined to intervene. Though on December 27 it claimed that it had ample powers under the Essential Commodities Act and Defence of India Rules to enforce rigorous measures for ensuring fair prices to growers and consumers, assuring that it would take necessary action "if free market prices rise unduly", precious little has been done. Since the season began, ex-mill prices have risen continually, to nearly Rs 300, against the Ministry's expectation that free market prices would stabilise around Rs 235. True, the first two months' production is 40,000 tonnes less than in the corresponding period of the previous season. The severe floods in UP-Bihar delayed the crushing, and the majority of mills started to crush only at the close of November. But the peak months, January-April, are yet ahead, and it is quite possible that production may turn out to be better than expected. In any case, with the 38 lakh-tonne estimate made by the Ministry, and the carryover from last year, there is no real shortage.

The ostensible purpose of partial decontrol was, as before, to fix levy prices on a cost basis and then allow mills to earn higher margins on the free quota with a view to increasing production. The higher floor price (Rs 9-11.50 per quintal of sugarcane) to growers, 'voluntarily' offered by industry, was also expected to contribute to this increase in sugar output. Discriminatory pricing where the wealthier are the targets of higher pricing is permissible when there is an economic gain somewhere down the line. But in the case of sugar, there are two qualifications: not all consumers are covered by fair-price shops; and the higher free prices are unlikely, judging by past record, to ensure higher, more efficient production aimed at self-sufficiency because that would depress sugar prices and put marginal units further in the red. And there are too many inefficient units that are politically significant. These will be protected, either through regulated releases or through controlled support. In the circumstances, government has made suitable noises about limiting exports to only preferential ones and forgoing the ISA export quota — but with the undercurrent of a hint that any export, though greatly subsidised, is valuable as it would earn free exchange. And who, in the current drive for self-reliance, can deny the importance of 'earned' foreign exchange even if it should create a further internal shortage of sugar?

Exports

Sluggish Undercurrent

WHILE, over the past few years, it has become almost routine for the Ministry of Foreign Trade to talk of special export efforts, last year the Ministry also decided to change the procedure of recording exports. The net result of this change was that the statistics suggested an export growth of 8.3 per cent. This seemed very favourable compared to the performance in the first year of the Fourth Plan when exports had increased at a rate far below the targeted 7 per cent. Exports were previously recorded on the basis of actual shipments, i e, on the basis of finally passed shipping bills. Since November 1970, exports data are compiled as and when consignments are approved for shipment. In other words, exports data are compiled on the basis of the original copy of shipping bills — adjusting for the short and shutout shipments, details of which are received during the month of reporting. The changed method, with its built-in lead of at least two weeks in the recording of exports, means that with average monthly exports of Rs 130 crores exports data for 1970-71 are likely to be about Rs 70 crores above the actuals for the period. If adjustments are made for this lead, the increase in exports during 1970-71 would likely be around 4 per cent — almost the same as in 1969-70. The export performance for 1970-71 thus turns out to be far short of the target.

Against this background, the Foreign Trade Ministry's export target of 9 per cent for the current year seems overoptimistic. In fact, performance during the first eight months of this year holds little hope for attaining the year's export target of Rs 1,670 crores. True, with exports worth Rs 139 crores in November, the cumulative total for April-November 1971 is about Rs 1,046 crores, and this compares favourably with the Rs 998 crores of exports during April-November 1970 — reflecting a 5 per cent increase. But this increase is misleading, since the prolonged dock strike at Calcutta in 1970 had been significantly responsible for holding back exports of such important items

as jute manufactures, tea and engineering goods.

During the last eight months, exports have averaged Rs 131 crores. If the export target set for this year is to be achieved, exports will now have to increase to a monthly average of Rs 156 crores during the remaining four months. A number of major export commodities may, as usual, pick up faster during the latter half of the year. But, even so, there are a number of countervailing factors that might slow down their anticipated growth.

The considerable uncertainty surrounding the dollar still continues to affect world trade, the dollar devaluation notwithstanding. It may be some time, too, before exporters get adjusted to the all-round changes in currency parities; the Indian rupee stands devalued in relation to a large number of currencies, leaving some scope for bargaining on the part of foreign buyers. Though it is too early to judge, the rupee's appreciation *vis-a-vis* the US dollar—the other currency besides sterling in which much of India's exports are invoiced—may yet be found to be something that we can ill afforded. Moreover, the 14-day Indo-Pak hostilities will not have been without their impact on our exports. The Japanese have used the occasion to cool off towards Indian shrimp and iron ore. Sugar exports, valued at Rs 28 crores in 1970-71, are also unlikely to aggregate more than half that amount this year.

The relieving factor has, of course, been exports of jute manufactures, which have increased sizeably mainly because of the dislocation of production and exports of jute manufactures from Bangla Desh. It is estimated that the net increase in India's exports of jute manufactures may thus be about Rs 59 crores. Once Bangla Desh resumes its normal manufacturing and export activities, India will very likely slip back to nearer its old level of jute exports. One is therefore led to conclude that, far from giving cause for optimism, the basic trend in exports has been stagnant. The Ministry of Foreign Trade must be aware of this when it speaks of an export drive on an emergency footing.

During the last 20 years, exports have never exceeded 5-6 per cent of GNP, and have not increased faster than the national income during any five-year period. On the contrary, the share of exports in the national income has tended to decline over the last two decades. Statistical tricks may help window-dressing of exports, but if exports are really to increase by 7 per cent annually over the long run, far more serious thought and effort will be required.

Tobacco

Wages of Neglect

THE Ministry of Food and Agriculture has systematically resisted suggestions for setting up a development board for tobacco along the lines of the tea, coffee and rubber boards. The latest suggestion for the constitution of a tobacco board has come from the National Council of Applied Economic Research (NCAER). The NCAER has argued that a tobacco board or development corporation will help increase yield and assist in improving marketing arrangements.

The arguments carry conviction. India is the third largest producer of tobacco in the world, next to the USA and China, but the average yield per acre is only about 350 kg here compared to 545 kg in Rhodesia and about 900 kg in the USA. In Andhra Pradesh, which has half the country's total area under tobacco cultivation, production per hectare has been steadily declining — from 870 per kg per hectare in 1962-63 to 741 kg in 1967-68 and further to 608 kg in 1969-70.

There is no agency today to advise the growers on scientific methods of cultivation, production planning and marketing or to undertake research into the production of tobacco qualities most in demand in the world market. The result has been poor yields and poor production planning, resulting in fall in production in periods when world demand was rising and rise in production when demand was declining. Also, all too often India is unable to supply the qualities of tobacco needed by the importing countries.

Tobacco growers also suffer heavily as a result of speculative purchases by the rich intermediaries who take the best leaf available in the market at a time and leave the grower or the small trader to face slumps in prices of lower quality leaf left in the market. The unsatisfactory nature of the present marketing arrangements is also evident from the vast difference in the price paid to the farmer and the price realised by the intermediaries. Often these prices are not known to either the grower or the small trader till the end of the season. Growers and small traders often rely on advance payments by big buyers who exploit this situation to dictate prices.

The proposed tobacco board or development corporation will, among other things, undertake a detailed study of the variety-wise demand for tobacco within the country and outside, purchase the entire produce to create a pool and conduct sale of pool tobacco in auction. It will also help promote research to improve the quality of tobacco and productivity per acre. In most parts of the world tobacco is grown on light sandy soils with an assured water supply; in many parts of India, especially in Andhra Pradesh, it is grown on heavy black cotton soils. The Indian growers have to be taught the modern techniques of cultivation in sandy irrigated areas.

These are the functions which the Rubber, Coffee and Tea Boards perform in their respective fields. The opposition by the Agriculture Ministry to the setting up of a tobacco board or corporation to perform similar functions is, therefore, strange. The immediate need is to increase the area under tobacco cultivation. Indications are that the present 145,000 hectares of land under FCV tobacco cultivation will decline to 140,000 hectares by 1973-74 because of the likely diversion of land from tobacco to rice as a result of irrigation facilities from the Nagarjunasagar dam. On the other hand, it is estimated that domestic demand will have increased from 285 mn kg in 1968-69 to 352 mn kg by 1973-74 and export demand from 60.5 mn to over 100 mn kg. Lack of funds is said to be holding up the progress of the programme to extend the cultivation of quality tobacco over an additional 30,000 hectares as proposed in the Fourth Plan. Surely, the government which nets about Rs 150 crores every year from the excise duty on tobacco should be able to set aside Rs 10 crores which is the estimated outlay on the programme.

Studies have to be conducted to ascertain the types of tobacco needed by the world market. A recent study sponsored by the US AID showed that there was a general and growing shortage of FCV tobacco in the world. By 1975 the shortfall in supply in relation to demand is expected to be 8.7 per cent. India has, therefore, to concentrate on the production of FCV tobacco and also curtail domestic consumption in order to increase exports. Exports of FCV tobacco have been declining from 55.4 mn kg in 1967-68 to 52.7 mn kg in 1968-69 and further to 48.7 mn kg in 1969-70. The export target of 63 mn kg of FCV tobacco in 1973-74 will thus almost certainly not be achieved.

Turning Inwards

Romesh Thapar

QUITE perceptively, and with a greater degree of confidence than usual, thoughts in the Capital are turning to internal affairs. This healthy development is made possible by the more than rapid return to normalcy in Bangla Desh, a pertinent commentary on the glooming forecasts publicised abroad by interested lobbies and by their provocateurs inside India. Very soon we will be enveloped by the fever of the state elections.

At the moment, the assumption generally is that these elections will be an unequal affair between the candidates of the new Congress Party, riding the wave of victory, and the representatives of an opposition in disarray. The parties to the Right and Left of the new Congress seem unable to present any coherent alternative in any region of India — not even in West Bengal. Interest in the election result is directly related to its uncertainty. Presently, the Indira legend is all pervasive.

There was a time when we used to talk about how fortunate India was to have had leadership of the calibre of Gandhi and Nehru. It was assumed that in the future this kind of leadership, even if it was on the scene, would really not get a chance to survive for any length of time in the uncertainties of underdeveloped situations. Victorious freedom struggles and wars could provide such ballast — but those days belonged to the past. No one foresaw the complex rise of Bangla Desh and its impact on the politics of the region.

Once again, it is like old times. Wherever one goes in the Capital, the conversation shifts to what the PM is likely to do to get India on to the path of solid economic and social growth. Inevitably, the opinion is aired that, commanding the 'mystique' she does, Indira Gandhi can order any policy corrections, break the powerful lobbies which are forever pushing us to the extreme Right and to the extreme Left, and bring back some of the disciplines on the production front which are noticeable for their absence. After all, she is being equated with the age-old symbols of spiritual power. Better make use of the opportunity.

Yes, this mumbo-jumbo is so much baloney; but the essential fact remains that it is possible for Indira Gandhi to now do what she was unable to do previously. All the pledges and programmes of the past four years, summarised in the emotion of 'Gharibi Hatao', can now be ordered — and not mechanically, as the extremists of various hues have been urging, but in a system of priorities devised by her. In other words, the PM is no longer a prisoner of her image-building. Her will is, for the moment, paramount — or, as the peasants around Delhi say: *"Rajdhani main, ek hai mantri, baqi santri"*.

But a position of undisputed power can be eroded with incredible suddenness within the extraordinary pulls and counter-pulls of the political structure prevailing on the Indian subcontinent. Today's problem is not one which can be resolved by tinkering here and there. It demands fundamental changes in economic and social priorities. A society of 550 millions cannot be handled with the traditional cliches of Right and Left. A new and dynamic vision of the future has to be forged, and it will have to be forged during 1972.

That is why the state elections become significant. Will we continue with an economic and social planning effort motivated by essentially defunct notions of what constitutes growth? Or will we see the beginnings of an



White Man's Burden

attempt to evolve a new model of economic and social growth, based on a policy line which impacts not the ambitions of the middle-classes but the life and hopes of the mass of our people?

To imagine that the state elections can be won without tackling the bankruptcy of our economic and social perspectives is to invite regional upsets of an embarrassing kind. The landslide which characterised the parliamentary elections may not necessarily reflect in the elections to the state assemblies, whatever the imapct of the recently concluded war. Our people will want proof that the new Congress is not returning to the ways of the old Congress.

In the coming months, it is going to be interesting to watch the process of turning inwards, if only to assess whether we have really matured as a democratic electorate able to distinguish between the various challenges facing us. Fortunately, we will be able to do this in newspapers cut to 10 pages and purged, we hope, of their wiffle waffle and verbiage.

And across the border, in Pakistan, Bhutto is also turning his people inwards. Interesting . . .

January 3

COMPANIES

Suffering from Imports ?

Hansavivek

INDIA CARBON has secured import licences for capital goods for its ethanolamines project and expects the plant to be completed by mid-1973. The company's di-octyl phthalate plant went on stream in January 1971. The product was found to be of good quality, but the full output could not be marketed because of a glut of imported material in the market. With imports now restricted by government, the position is expected to improve soon. The Gauhati plant produced 64,300 tonnes of calcined petroleum coke during the year ended June 1971, against the target of 75,000 tonnes. The shortfall was due to stoppages of supplies of raw petroleum coke from Barauni refinery in March-April on account of rail strike and non-availability of wagons. Barauni refinery could supply only about 8,000 tonnes of raw petroleum coke in four months till June 1971, against the agreed quantity of 40,000 tonnes. Supplies from Barauni still continue to be poor. The company was permitted by government to calcine raw petroleum coke in its Budge Budge plant till such time as raw anthracite coal was received from abroad. The plant, which was recommissioned in June 1971, stood well in its first run, but had a setback in subsequent months owing to shortage of petroleum coke and frequent power failures. A standby diesel generating set has been installed. The company has approached government to allow calcining petroleum coke in this plant on a continuous basis, as arrival of raw anthracite coal from the USA has been delayed. The company's appeal before the Supreme Court in the matter of sales tax on raw material purchases from the refineries has been decided in its favour. The 1970-71 accounts show small improvement in sales and gross profit compared to the preceding year. Provision for taxation has not been made in the latest accounts, as tax matters are under dispute.

HYDERABAD ALLWYN, which is being made a government company, is improving the working capital position and debt/equity ratio as part of its drive to attain higher output and bring down costs. Negotiations are under way with banks, IDBI, and the AP state government. Workers' emoluments have been raised since November 1970. The increased expenditure is expected to lead to greater effort by the labour and consequently to better financial results. At the same time, the product-range is being widened. Several new products have been developed and would be produced on commercial basis in the future. These include deep freezers, water coolers, air-conditioners, electrically operated cooking ranges, gas stoves, etc. Also, an industrial licence has been secured for trebling production of refrigerators to 30,000 per annum. The current programme has been planned on the basis of expanded production. It is also intended to start manufacture of scooters. AP Industrial Development Corporation, which has a 'letter of intent' for manufacture of scooters, has asked Hyderabad Allwyn to develop and manufacture this product on its behalf. The 'letter of intent' will be transferred to the company when it is in a position to take up commercial manufacture. Some groundwork has been done in this respect, and a preliminary project report has been received from NIDC. Meanwhile, the the company has produced improved results for the 29th year ended April 1971. The net profit of Rs 5 lakhs and a writeback of Rs 4 lakhs from development rebate reserve, have been utilised to reduce the accumulated loss to Rs 85 lakhs.

JK STEEL turned out much better results during the year ended June 1971 when sales jumped by 29 per cent to a new peak in the 18-year career of the company; the outcome was a trading surplus of Rs 23 lakhs compared to a deficit of Rs 11 lakhs in 1969-70 and of Rs 18 lakhs in 1968-69. The improvement in results enabled the company to return to the dividend list with a modest distribution of 3 per cent which was covered fivefold. Rise in production is attributed to better supply of raw materials, but it is stated that productivity has continued to be low despite "sharp increase" in wages and emoluments to employees. While total expenditure on employees increased by less than Rs 8 lakhs to Rs 58 lakhs, remuneration paid to sole selling agents and distributors and others showed a much higher proportionate rise, from less than Rs 4 lakhs to over Rs 7 lakhs. The report points out that, unless productivity rises the capacity to pay higher wages as well as to control rise in prices of products would be greatly impaired. Listing other adverse factors, the directors say that frequent strikes and 'bundhs' for political considerations and power failures and load sheddings have resulted in considerable loss of production and that the prices of raw materials, stores, and spares and the cost of railway freight and other government levies have continued to rise, lifting cost of production.

SIRPUR PAPER increased production from 32,700 tonnes to 35,300 tonnes in the year ended June 1971, and achieved substantially better results compared to the preceding year owing to an impressive surge in margins. Dividend, doubled at 6 per cent, was covered 2.5 times — while last year's payment was barely covered. The company's claim

of Rs 7 lakhs on insurers for damages arising out of an accident in a boiler due to tube failure in September 1970 is under survey. This claim has, therefore, not been dealt with in the 1970-71 accounts. The leases of Andhra Pradesh bamboo forests expired at the end of March the previous year. The company is negotiating with the state government for their renewal. The factory's expansion programme is progressing according to schedule.

ASSOCIATED CEMENT COMPANIES' chairman, N A Palkhivala, believes that more than 90 per cent of the shareholders who are entitled to tax relief in respect of dividends paid out of profits of new factories will never get it, because of the 'wrong attitude' of the income-tax department and the interminable proceedings which go on regarding every year's assessment. He explains that there is no final decision yet as to the company's and the shareholders' claim to tax relief from the assessment year 1957-58; in the mean time, the shareholders' assessments get completed and become final. In his annual statement circulated to the shareholders, Palkhivala says the Appelate Assistant Commissioner and the Income-tax Appellate Tribunal have upheld the company's claim for tax relief, but the income-tax department's reference against the Tribunal's decision is pending in the High Court. Further, he adds, the question of the correct mode of computing the capital employed in the newly established undertakings has been sent for determination to the Central Board of Taxes, and its decision for the last so many years is awaited. Commenting on the impact of tax changes on the cement industry, Palkhivala says the withdrawal of the status of 'priority' industry, enjoyed by cement since 1964, would result in an increase in the tax burden from 50.6 per cent to 55 per cent, apart from the surcharge imposed in December last. The threatened abolition of development rebate on plant and machinery installed after May 1974 would not only substantially increase the tax burden on the corporate sector, but would also drive companies to obtain assistance from financial institutions instead of financing development from self-generated resources; it would thus leave companies free to distribute dividends out of moneys that would otherwise have been ploughed back compulsorily as development rebate reserve.

INTERNATIONAL COMPUTERS INDIAN MANUFACTURE (ICL) is raising dividend by a point to eleven per cent for the 52 weeks ended September 29 last following higher profits compared to the preceding year. The increased profits accrued from higher sales accompanied by widened margins. This resulted from a greater contribution from the Poona unit and the going into production of 1901 A series computer at the Bangalore factory. S H Utamsingh has been appointed as managing director from September 30 last. He is also managing director of International Computers (India) Private Ltd.

The Week's Companies (Rs in Lakhs)

	India Carbon		Hyderabad Allwyn		JK Steel		Sirpur Paper	
	Latest Year 30-6-71	Last Year 30-6-70	Latest Year 30-4-71	Last Year 30-4-70	Latest Year 30-6-71	Last Year 30-6-70	Latest Year 30-6-71	Last Year 30-6-70
Paid-up capital	80	80	124	124	70	70	345	345
Reserves	102	73	23	27	35	27	140	91
Borrowings	85	57	332	296	225	185	367	397
of which Term borrowings	52	31	106	107	59	65	127	36
Gross fixed assets	262	230	286	289	244	238	1264	1200
Net fixed assets	163	153	142	158	158	163	595	618
Investments	—	—	4	4	12	12	3	3
Current liabilities	108	140	162	141	76	75	199	199
Current assets	138	140	411	333	235	182	452	410
Stocks	112	120	233	232	151	97	331	251
Book debts	24	15	172	95	57	52	117	156
Net sales	396	390	556	367	320	247	744	632
Other income	6	—	9	8	3	1	42	44
Raw material costs	215	229	306	189	161	119	122	111
Wages	39	25	131	116	58	51	142	135
Interest	8	3	35	27	17	16	42	42
Gross profit(+)/loss(—)	61	58	19	—76	23	—11	160	86
Depreciation provision	22	19	14	15	10	20	64	64
Tax provision	—	16	—	—	—	—	15	1
Net profit(+)/loss(—)	39	23	5	—91	13	—31	81	21
Development rebate provision	6	10	—	—	—	—	35	2
Transfer to reserves	20	2	—	—	8	—40	24	—
Dividend								
Amount	E 11 P 2	E 10 P 1	—	—	E 2 P 3	— —	E 16 P 6	E 8 P 11
Rate (per cent)	E 9.3 P 18	E 16 P 9.3	—	—	E 3 P 9.1	— —	E 6 P 6	E 3 P 6
Cover (times)	2.82	1.20	—	—	5.00	—	2.50	1.00
Ratios (per cent)								
Gross profit/sales	15.40	14.87	3.41	—	7.18	—	21.51	13.61
Net profit/capital employed	14.60	10.95	1.04	—	3.94	—	9.51	2.52
Inventories/sales	28.28	30.76	41.91	63.21	47.06	39.27	44.49	39.71
Wages/sales	9.85	6.41	23.56	31.61	18.12	20.64	19.08	21.36

OFFICIAL PAPER

A Mountain in Labour

Arthagnani

THE Planning Commission's Mid-Term Appraisal of the Fourth Five-Year Plan meticulously brings together data on the implementation of the Plan to date and maps out in detail the prospects of the Plan during its remaining period.

The findings of the Appraisal are clear enough. There have been small shortfalls in growth of national income and the overall target in national income is unlikely to be reached (chapter 1, para 34). In agriculture, progress in wheat production has been satisfactory, but not that in rice and cash crops. Against a target of 129 mn tonnes, the Planning Commission expects foodgrains production to be 122/125 mn tonnes in 1973-74. Major shortfalls are expected in cotton, jute and sugarcane and a minor shortfall in oilseeds. Industrial production has been below the 8-10 per cent annual growth target and, what is more, has shown a tendency to decelerate. The expectation is that while some targets would be fulfilled, the overall industrial production target will be reached only in the early years of the Fifth Plan. Shortfalls are expected in power (21.2 mn kW against the target of 22 mn kW) and in railway transport (240 mn tonnes originating traffic against 265 mn tonnes). So also shortfalls are expected in education and in creation of hospital beds. The family planning programme is pronounced to be lagging seriously behind original expectations (chapter 2, para 35).

The total volume of resources raised would be about the same as envisaged in the Plan, though the balance between the Centre and states would be slightly modified (chapter 3, para 2). As regards domestic resources for the public sector plan, the total amount raised in the first two years is Rs 3,871 crores, and the total amount expected to be raised during the five-year period is estimated at Rs 13,358 crores against Rs 13,288 crores anticipated. Shortfalls ("negative contributions" in the Planning Commission's terminology) are expected in surpluses of public enterprises, to be made good by higher market borrowings and larger deficit financing (chapter 3, para 4). As for external resources, against the estimate of gross aid requirement of Rs 4,130 crores, the revised needs are placed at Rs 4,594 crores. Rs 1,690 crores of gross external assistance has been obtained so far and Rs 2,890 crores are needed during the remaining years of the Plan to balance the external account without drawing on reserves (chapter 5, para 32).

The Appraisal thus deals with almost all aspects of the Plan and provides counterparts for the figures given in the Plan document for the first two years and, in the light of this experience, projects their likely values at the end of the Plan period. It makes broad suggestions on Plan implementation for the remaining period and on this basis gives an assessment of likely fulfilment of Plan estimates by 1973-74. In the process (as is to be expected, given the membership of the present Commission), the Appraisal also gives some impressive displays of technical expertise in statistical calculations (particularly in the "technical appendix" to chapter 4 and the discussion of savings in chapter 6).

Use of CSO Classification

However, this is all that can be said of the Mid-term Appraisal. In its presentation and analysis of material on the state of the economy and in its prescriptive logic, the document falls far short of what was needed in a plan appraisal of this type.

In measuring the progress of the economy in national income terms, the Commission operates on the CSO classification in all its details and seeks to project them to 1973-74. Significantly all indicators (value added in mining and manufacturing; banking and insurance; trade, storage, hotels and restaurants) show the slowdown in growth which had emerged in 1970-71, the second year of the Plan, and which has been confirmed by the stray indicators so far available for 1971-72. More timely availability of data could have enabled remedial action to be taken in 1971-72 — assuming, of course, that the Government is bothered about the rate of growth.

But if policy decisions are to be taken, is the CSO classification the best management tool to operate with? An economically meaningful classification would divide national income into four categories — primary production, secondary production, tertiary sector other than governmental administration, and governmental administration. With such a classification, it would have been seen that it is the tertiary sector and governmental administration that have been the fastest growing sectors in the economy, not only during the first two years of the Fourth Plan (chapter 1, para 30) but in fact ever since planning began.

Does this situation indicate an increase in welfare? The tertiary sector is essentially a service category and its growth should be based on servicing the needs of the primary and secondary sectors. During the last two years there has been a large growth in, for example, the banking sector, based on autonomous factors. And how is one to interpret expansion of government administration (including the Planning Commission) as addition to national income? Whatever the considerations from the viewpoint of the purity of national income calculations (and whatever its welfare contribution for government servants themselves), should government administration be taken as a positive contribution in measuring economic growth? Would it not be more rational to follow the Rudra-Mann approach and take account only of physical production — the primary and secondary sectors — to measure welfare, and take policy decisions accordingly?

Conflicts and Contradictions

The inadequacy of the Appraisal is also evident in the faulty analysis of the present slow-down and the failure to reconcile policy objectives. While the rate of growth in agriculture is satisfactory, in the industrial field growth has been slow and the causes of this slow growth need to be examined. Unfortunately, rather than explain the factors responsible for the industrial slowdown, the Appraisal lapses into the standard Ministry of Industry apologia about weights of the production index being outdated, growth of small industry being underestimated, and the existence of capacity constraints (chapter 1, para 12); it even suggests (chapter 2, para 17) that the setback in cotton textiles is due to shortage of raw materials—when imported cotton is lying about unlifted. While in chapter 1 (para 10) the planners accept the CSO data on "value added" in the small industry sector in the first two years of the Plan, in chapter 2 (para 9) they begin to refer to the fact that the industrial production index "does not reflect the dynamism in the small-scale sector"!

The planners are guilty of a similar contradiction in regard to saving in the industrial sector and the role of price controls in curbing inflationary trends in the economy. In chapter 6, in discussing savings, the Appraisal refers to the fact that the whole of the surplus in the corporate sector emerges as savings and, therefore, suggests the need to enhance such surplus as a source of savings (para 35). Yet in Chapter 7, it enumerates, with apparent approval, a whole set of price control measures on industry (steel, aluminium, tyres and so on) as curbing inflationary pressures (para 12). The conflict inherent in trying to achieve both—maximising industrial savings and curbing price rises—apparently escapes the planners.

Low Level of Investment

It is evident that the main factor in the slow-down of growth is the low level of investment in the economy—particularly in the Government sector—which has in recent years been much below the level reached at the end of the Third Plan. Data on savings and investment (chapter 6) underscore the low rates of savings and investment prevailing—rates lower than those prevailing at the end of the Third Plan and, in some cases, even lower than those at the end of the Second Plan (chapter 6, para 2). (Incidentally, instead of the present mechanical pattern of chapters, a rearrangement of chapters 3, 4 and 6 as chapters 5, 4 and 3, respectively, would add to the lucidity of exposition.)

The planners repeat the usual exhortation about the need to raise the rate of saving (chapter 6, para 30) without specifying the particular measures needed to do so. Significantly, while the Appraisal does seem to suggest that egalitarianism need not reduce the rate of saving, it does not bring out the fact that, given the tax structure, a shift in income towards agriculture directly reduces the proportion of income accruing to the government. Nor does the Appraisal bring out that while reliance on indirect taxes might be inevitable in state budgets, the emphasis in revenue collection at the Centre also has shifted towards regressive indirect taxation (mainly excise duties) over the last more than a decade—though the Centre enjoys much greater direct taxation powers. The recent exercises in petty surcharges to collect revenues for Bangla Desh refugees is a manifestation of the same myopic view of taxation. Unless the revenue-raising effort becomes more imaginative and shifts in favour of direct taxation, the Central revenues will continue to have the same anaemic look they have had during the last five years.

Policy Vacuum

The main failure of the Appraisal document lies in its tendency to analyse data and make forecasts in a policy vacuum. If industrial production is lower than targets, it can, given the existence of excess capacity in a large number of industries, be raised; this will then have repercussions on the tertiary sector. Also, the export-import situation can be changed by relevant policy actions. However, except for very vague generalisations the Planning Commission fails to suggest policy actions; one can then question the basis on which the Commission has made its estimates and the relevance of its forecasts.

The whole edifice is built on a set of assumptions which have been proved to be incorrect even before the ink on the Appraisal document is dry. The Planning Commission has made the whole exercise in "constant prices" when the entire experience of planning has been one of changing—mostly rising—prices. There is no reason to assume that the next two years will see any more price stability than the past two decades (after all, the Finance Ministry is fond of referring to inflation as one of the compulsions of development) and it would have been far more realistic to make the various estimates on the basis of a 3 to 5 per cent price increase. Secondly, the Appraisal refers to the continuing consequences of Bangla Desh refugees and of defence —both of which, fortunately, are likely to have a lesser impact in 1972-73 and later, thanks to the successful outcome of the military conflict in last December. Finally, the Appraisal almost tries to turn a blind eye to the problem of aid, an area in which the picture has changed radically during the last one month. Not so long ago the official slogan was "more aid to end aid" and while we did get more aid, there seems to be little inclination among our bureaucrats to see aid ended. The foreign powers' postures during the war have brought to a head the question of continuing aid and gradually the implications are entering the policy-focus of the government. The planners have still to work this new policy stance into their meticulous calculations.

The data in the Appraisal is often given to the last crore of rupees and calculated to one decimal point. This gives a false appearance of accuracy to figures which are in the nature of forecasts. For example, the Commission estimates export earnings at Rs 8,275 crores over the Fourth Plan period, against the original estimate of Rs 8,300 crores; is this difference of Rs 25 crores (or 0.3 per cent), even if it actually materialises, significant enough to be noted?

The Appraisal follows the earlier plans and their mid-term reviews not only in their format, but also in their tendency to make exhortations and generalisations. Referring to the present economic situation, the Planning Commission wants it "to be rectified urgently and effectively" (chapter 1, para 34). As regards industry, it wants "concerted efforts at creating a climate of expansion" (chapter 2, para 19). It calls upon public enterprises to take "effective steps for increasing their operational efficiency, promoting better utilisation of capacity, ensuring satisfactory maintenance of plant and equipment and improving inventory control, management and industrial relations" (chapter 3, para 35). In chapter 4 (para 6), it devolves "responsibility on the financial institutions" and on co-operative and corporate enterprises "to improve their operational efficiency" to raise household savings! In Chapter 9 it suggests that the Planning Commission is undertaking studies "as a prelude to formulating spatial strategies at different levels of responsibilities and decision-making" (para 11) and later asks the Central Government to provide "a spatial dimension to the temporal and sectoral perspective and the operations plans" (para 14). The Central Government will evidently need to employ some more econometricians to understand what it all means—incidentally, increasing national income through value added in public administration.

Despite threats to become more specific, one looks in vain in the document for specific policy recommendations. It is good to ask the government to make economies, to exhort public sector units to be more efficient and to ask the general public to save more. This, one should have thought, was the province of the politician; the planner needs to be more specific as regards measures to achieve these worthy objectives.

Fourth Plan Written Off?

Reading through the Appraisal, one becomes conscious of the fact that the planners' gaze is firmly fixed not on the immediate problems but on the formulation of the Fifth Plan. In fact,

one gets the impression that the planners do not consider the Fourth Plan as their baby, and would rather write it off. But is this wise?

Clearly, a plan—even the Fifth Plan, which the present planners seem to be itching to begin formulating—is not a super-imposition on the economy, but has to be woven into it. An economy can hardly afford to waste two years—even after it is granted that the last five years have been wasted—in terms of industrial growth and change in economic structure. Even if the Fifth Plan is to come into operation in two years, there has to be a transition to this stage, and policy decisions have to be taken today to stimulate the economy and to bring it to a stage where it is using its production potential to the full.

The planners are still groping for the levers which move the economy; in the best apprentice tradition, they are learning while earning. The Mid-term Appraisal is a statistical exercise which, despite the pretensions to erudition, could have, as effectively and much faster, been carried out by the CSO. And so one must wait for another day for a full appreciation of the policy prescriptions for an economy which shows clear signs of stagnation.

FROM OUR CORRESPONDENTS

MAHARASHTRA

From Party to Factions

AFTER talks in New Delhi with Maharashtra Congress leaders over the choice of members of the State Parliamentary Board, the Prime Minister, newspaper reports say, expressed her unhappiness over the rift in the Maharashtra Pradesh Congress Committee, adding that this was the first time that factional differences had come to the surface in the state Congress. It is not known if the Prime Minister has been correctly reported; if she has been, then her statement must be put down as expression of a rather wry sense of humour. For, not only has the Prime Minister known all along of the developing differences in the state Congress and the emerging challenge to the leadership of the Finance Minister, Y B Chavan, but her interest in these developments has been rather more than casual and disinterested.

Be that as it may, there can be no doubt about either the existence of differences within the Maharashtra Congress or the erosion of Y B Chavan's once complete control of the party. Both developments were sharply reflected at the meeting of the general body of the MPCC on January 2. At the meeting, the leadership of the Union Finance Minister was openly challenged by the group led by Shankarrao Chavan, state Minister for Irrigation and Power and deputy leader of the state Assembly. In by-elections to the State Parliamentary Board, Shankarrao pitted his own nominees against the 'official' nominees who had the blessings of Y B Chavan. So formidable was the challenge that the elections had to be postponed. Secondly, the party spurned Y B Chavan's attempt to maintain its leftist image by unanimously repudiating the state government's decision to lower, through an ordinance before the forthcoming Assembly elections, the ceilings on land holdings and change the basis of fixing ceilings from the individual to the family.

To take the second point first. The Maharashtra government and the state Congress have always prided themselves on their radical orientation compared to other state governments and state Congress parties. To strengthen this image on the eve of the state elections, Y B Chavan had, through the instrument of the Congress Forum for Socialist Action, got a resolution passed in November last that the state government would fulfil its commitment to lower the ceiling on land holdings before the elections. Chavan was confident that he would be able to carry the party with him and smother the opposition of a handful of leaders representing landed interests. But to his dismay, he found that the overwhelming opinion in the party was against the proposed ordinance on land ceilings.

The first indication of the party's opposition to the measure came at the farmers' rally organised at Malshiras in the second week of November at which a group of influential and affluent farmers in the state Congress led by Shankarrao Mohite-Patil, one of the leading lights in the co-operative movement in the state, raised the banner of revolt. Mohite-Patil and his group openly threatened to mobilise farmers all over the state against the proposed land ceiling and to work against party candidates in the elections.

The mood of the rank and file at the MPCC meeting on January 2 was reminiscent of that at the Malshiras farmers' rally. Most of the speakers not only endorsed the stand taken by Shankarrao Mohite-Patil and his group — Mohite-Patil himself was very active on the dais — but ridiculed the government's attempt to lower land ceilings without touching the urban sector. Speakers repeatedly pointed out that before the government thought of making any changes in its land policy it should first put a ceiling on the urban incomes of lawyers, doctors, government officials and private sector executives. In addition they demanded imposition of a ceiling on urban property. The rural population, it was argued, had had one dose of ceiling legislation when the government enacted the land ceiling law in 1961; it was time, therefore, that the government turned its attention to the urban sector.

Y B Chavan, who spoke after the meeting had ratified the resolutions on ceilings on agricultural land and urban property and income, did not refer to the land ceiling issue in detail but made the general comment that nobody in Maharashtra Congress was opposed to changes in the agrarian structure in the state. This was contrary to expectations. The Union Finance Minister, it was expected, would give the lead to the party on a major policy issue such as the proposed ordinance on land ceilings. This he clearly failed to do.

Y B Chavan's defeat on the issue of choice of nominees for filling the two vacancies on the State Parliamentary Board was even more serious. It is clear in retrospect that Shankarrao Chavan had put up his own candidates with the full backing of the Prime Minister. Y B Chavan had thought that he would be able to overrule Shankarrao and persuade him to withdraw his nominees. Shankarrao Chavan, however, stood his ground and pressed his claim for a fair representation on the State Parliamentary Board. Y B Chavan's supporters met Shankarrao many times and held several rounds of discussions with him to persuade him to withdraw his nominees so as to make possible a unanimous election. But Shankarrao not only refused to yield but even declined to meet the Union Finance Minister unless he had new points to discuss. He also let it be known that his nominees had the support of the Prime Minister and that he was now leading a pro-Indira Gandhi faction in the party against the pro-Y B Chavan faction. This created a vertical division in the party and many members, including senior ministers of the state cabinet, indicated to Y B Chavan that they would be unwilling to oppose the wishes of the Prime Minister.

This development rattled the Union Finance Minister who saw the threat of a split in the party and even defeat of the official nominees. Even if the official nominees won, it would mean challenging the Prime Minister with all its implications for his own position at the Centre. So he advised his followers to postpone the election. He also asked Chief Minister V P Naik, whom he is supporting for continuing as Chief Minister after the Assembly elections, to seek the Prime Minister's advice in the matter. The Prime Minister asked V P Naik to either accommodate Shankarrao Chavan's nominees, whoever they may be, or postpone the elections so that the issue could be decided by the Central leadership. In the subsequent talks in New Delhi, the Prime Minister did not consult Y B Chavan but, after a show of holding joint and separate meetings with Shankarrao Chavan on one hand and V P Naik and PCC president Vasantrao Dada Patil on the other, gave her verdict in favour of Shankarrao Chavan. One of Shankarrao Chavan's nominees was changed; instead of Baburao Kale, MP, Babasaheb Savnekar, a Member of the Rajya Sabha, was chosen. But as anyone with some knowledge of state politics knows, Babasaheb Savnekar is an even more bitter opponent of Y B Chavan than Baburao Kale.

What will be Y B Chavan's strategy now? He knows that he will no longer be able to support V P Naik's continuance as Chief Minister after the elections. He will, therefore, try to put up another Maratha caste politician, possibly from Marathwada region, as a contender for the chief ministership against Shankarrao Chavan. This need not, however, create a serious problem for the Prime Minister, for she has not committed herself to Shankarrao Chavan becoming the next Chief Minister. Whoever becomes the Chief Minister, the Prime Minister should have no difficulty in driving home the point that he could not have succeeded without her tacit approval. In the meantime, Y B Chavan would have been reduced to the position of a faction leader in the state party.

NEW DELHI

New Centre-States Equation

THE discussions now going on in Yojana Bhavan with state governments on the state plans for 1972-73 reflect the changed balance of political forces as between the centre and states. And that is probably the only point of interest in these discussions which are of the usual routine variety, being concerned with fixing the size of the states' annual plans, the quantum of central assistance and specific programmes and schemes as approved by the Planning Commission's advisers for different states. In the days after the 1967 elections which saw the emergence of non-Congress governments in several states and a weakening of the political authority of the central government, the Planning Commission under the late D R Gadgil extended the maximum initiative and autonomy to the state governments in formulating their plans. It was thus that the quantum of central assistance for the state plans was fixed for the entire Fourth Plan period and it was decided that its distribution would be according to a formula approved by the Chief Ministers and accepted by the central government. The amount of central assistance being known in advance, the size of the annual plans was made dependent on the resource-raising effort of the state governments themselves. The so-called centrally sponsored schemes were also pruned drastically. The attempt was to make the state plans as immune as possible from the whims and political prejudices of the central authorities.

The authority of the central government was very much strengthened by the last elections to Parliament and the collapse of many of the non-Congress governments in the states. The prospects of the Congress recapturing its dominant position in the states in the coming Assembly elections are now considered excellent. Against this political background, the Planning Commission, under the leadership of C Subramaniam — himself an active political figure of the Congress unlike D R Gadgil, a non-party man — is slowly changing the pattern of centre-state relations in planning. Several indications of this are becoming available in the Commission's current discussions with state governments on their annual plans for the next year.

The Planning Minister stated publicly some days ago that the state governments had neglected some of the priority programmes, mentioning the shortfalls in social services and in primary education, in particular. The performance of the state governments in these and many other fields is certainly open to question. But Subramaniam drew from this the conclusion that he could apply the necessary corrective by taking matters in Central hands and by reverting to the system of having centrally sponsored schemes in these priority areas. But the record of the Central ministries in Plan implementation has not been exactly bright. The fact that Subramaniam's statement went unchallenged can be explained only in terms of the changed political situation in the country and the impact of this on centre-state relations.

The unilateral decision to apply a cut in central assistance to the state plans in the coming year of between 3 and 5 per cent depending on the financial position of the different states confirms this trend. The justification given for the cut is the financial stringency created by the war and its aftermath. The cut itself is not so important as the manner in which it has been applied, without prior consultation with the state governments. Also, in the discussions on the annual plans for the next year, the Planning Minister has been making alterations, even if only marginal, in the size of the state plans and in the allocations for particular programmes. The manner and extent of the cuts depend largely on the Planning Minister's personal judgment and his keenness to achieve a measure of political rapport with a particular Chief Minister. This brings back the days when the Planning Commission used to keep reserve funds up its sleeves to deal with the demands and needs of particular state governments on the basis of essentially political bargaining. This was something the Planning Commission under D R Gadgil was very careful to avoid. Will the new approach impart a measure of flexibility and resilience to plan-making and implementation, as is claimed, or will it subject planning to political whims and fancies and *ad hoc* considerations of various kinds remains to be seen.

A positive feature of the current discussions on the state plans is that the Planning Minister, backed by far

greater political authority than was the case earlier, is finding it easier to be blunt with the chief ministers about the resource-raising effort that the state governments must undertake. Though the ultimatum that no more overdraft facilities would be available to the state governments from next year need not be taken too seriously — ways and means advances will continue to be made after a review of state finances every quarter — the chief ministers are at last under pressure to do something to raise resources. They may even be expected to take some action after the Assembly elections are over.

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The Industrial Development Ministry's proposal, canvassed for the last several months, to relax licensing policy to encourage more intensive utilisation of established capacities in industry was approved by the government and announced on the first day of the new year. Units in the 54 selected industries can now raise production to twice their licensed capacity. Multiple shift operations will be permitted even if the units have been specifically licensed on single or double shift basis. The concessions will not apply to 128 products which are reserved for the small-scale sector. The anti-monopoly stance of the government is sought to be preserved through the proviso that in the case of larger industrial houses and foreign majority firms, these concessions will be subjected to clearance by a special task force to be set up for the purpose. The 54 industries covered by the announcement include a large number of basic chemical and engineering industries as well as several consumer goods industries. Important omissions from the list are cars, scooters, air-conditioners, beer, spirits and cigarettes.

The aim of the new concessions is stated to be to boost industrial production. However, the Industrial Development Minister later estimated that the improvement may be only from the 1.5 per cent rate of growth achieved during the first seven months of the year to about 3 per cent for the year as a whole — which will still be woefully low compared to the Plan target and the needs of the economy. Obviously, licensing restrictions are not the only constraints on industrial production.

The impact of the relaxation of licensing policy will be felt, according to Industry Ministry circles, immediately in industries like dry and storage batteries, certain chemicals, tyres and tubes and paints and varnishes. These are industries which face no dearth of raw materials. The relaxation will have no impact on some other industries like railway wagons and diesel engines where insufficient demand is the primary constraint on utilisation of capacity. In many other cases, particularly in engineering industries, raw materials remain a bottleneck, unless additional imports, including of steel and non-ferrous metals, can be arranged on a sizeable scale — which will come up against foreign exchange problems in the context of the decline in foreign aid. Further, it has been estimated that as much as 75 per cent of the licensed capacity in many of the 54 industries is with units belonging to large houses. If the licensing concessions are to have their full impact on production, it will be necessary to extend them to the larger houses as well. It appears that this will be done, the commitment to curb monopoly and concentration of economic power notwithstanding. Meanwhile, the business community has given a warm welcome to the new policy and, more generally, to the changes in the government's approach to industrial policy matters which it signifies.

The FICCI president has, however, sought certain clarifications about the new policy. He has asked whether doubling of production by established units would be permitted only through use of existing capacity or licensed capacity could also be increased by installing additional equipment — albeit from indigenous sources, if imports are not to be allowed. According to the FICCI chief, the impact of the new policy would be very limited if additional equipment cannot be installed; in that case it would amount to no more than regularisation of unauthorised capacity which already exists. Indications are that the FICCI president's demand will be met by the government and additional equipment of a balancing kind will be permitted to be installed or at least its installation will be condoned. This will also help the capital goods industries which have considerable spare capacity.

The Industrial Development Ministry has justified the relaxation of licensing as being the quickest way of increasing production (and possibly employment) since the increase in production would be achieved with the "lowest practicable rate of investment". This, it is said, is an important consideration when capital is scarce and funds for new investment are not in plenty. The assumption, of course, is that there is considerable excess capacity in a number of large-scale industries, part of which is not being used because of licensing restrictions (though in many cases large units are in fact producing well in excess of licensed capacity). Having posed the problem in this manner, the Industrial Development Ministry had to find a way to overcome possible objections from the 'monopoly angle'. This is now sought to be done by drawing a distinction between "monopoly" and "restrictive trade practices".

While monopoly situations may not be desirable, it is argued, technological advances have made large-scale production imperative, resulting in the creation of monopoly positions for one or a few manufacturers. However, "it is important in this context to distinguish between monopoly as such and the misuse of monopoly positions for indulging in restrictive trade practices". In the discussion on this point a radical suggestion that emerged was that where the licensing provisions had been violated and excess capacity had been created and operated and where monopoly positions acquired by some manufacturers had been exploited to make excessive profits, or could be so exploited, the excess output should be acquired by the public authority at reasonable prices and distributed through a public distribution system to protect the interests of the consumer.

The argument advanced was that use of productive capital assets should be distinguished, if necessary by special legislation, from the ownership of such assets. Productive capacity should be used to the full but this need not stand in the way of the output being taken over for public distribution. This could be done by the government exercising its powers under the Industries (Development and Regulation) Act and the Essential Commodities Act and by developing the machinery for public distribution of commodities.

The argument about the need to control profits and prices even as established capacities are allowed to be fully used does not, however, figure anywhere in the latest concessions for 54 industries. In fact, even the reservation introduced in the concessions in respect of the large business houses and foreign companies is intended to be only a face saving device. Applications to take advantage of the concessions from big houses and foreign companies are expected to be cleared liberally.

GUJARAT

Free Hand for Prime Minister

THE victory in the war with Pakistan has completely altered the political situation in Gujarat. Before the war, Congress (O) as a party was still a force to reckon with. It was in fact reinforcing itself, thanks mainly to the widening schisms at all levels within Congress (R). The internal dissensions in the GPCC had eroded Congress (R)'s public image to an extent where the outcome of the forthcoming elections to the assembly in this state was a source of anxiety to the party High Command. For Indira Gandhi this was an altogether unsatisfactory state of affairs, for till Congress (O) was wiped out in its last bastion in Gujarat, it could not be certified as 'dead'. The Prime Minister's concern over party affairs in Gujarat was clear from her decision to spend a day in Ahmedabad to sort out the tangles in the GPCC at a time when the tension on the borders had almost reached the flash-point.

However, what she might not have achieved by admonishing her partymen in Gujarat, the outcome of the war has achieved. It is now clear that the rank and file as well as the leaders of Congress (O) are repenting having lined up behind Morarji Desai at the time of the Congress split. All over the state, Congress (O) partymen are in a rush to join the Indira Gandhi bandwagon. Many of them, including one of the secretaries of the party, Brahmkumar Bhatt, do not even want to wait for some move by Congress (R) inviting them to join it. Though the Congress (O) president, Vajubhai Shah, is trying hard to keep a brave face, he knows that he cannot stop the rush of deserters.

Usual Enigmatic Stance

The former Chief Minister, Hitendra Desai, has however maintained his usual engimatic stance. On his moves depend whatever little future there is left for Congress(O) as a party. As so often in the past, at this critical juncture for his party Hitendra Desai is content to sit on the fence. On the one hand, he has reaffirmed his loyalty to Congress(O); on the other hand, he seems to have decided not to contest the forthcoming elections. This latter decision will be ruinous to Congress(O) since Hitendra Desai is one of the few remaining members of the party with any chances of winning a seat. One wonders whether what Hitendra wants is to keep his option open to join Congress(R) after the elections are over. Even if he won on the Congress(O) ticket, he would be no more than part of a miniscule opposition in the new assembly — a not particularly attractive prospect. Perhaps he is waiting to convince the Congress(O) high command that as the party's last stronghold — Gujarat — has fallen, the party should wind up. Once that happens Hitendra can decide to join Congress(R) with a clear conscience.

While the coming elections may well be a walk-over for Congress (R), there are no indications that there will be stability in the party in Gujarat. During her day's visit to Ahmedabad, Indira Gandhi seems to have done some straight talking to the quarrelsome GPCC leaders, but without much effect.

Novel Selection Formula

Before the recent flow of defections from Congress (O) started, the support enjoyed by the three factions, pro-Adani, pro-Forum, and pro-Chimanbhai, in the GPCC as well as their control over the party machine was more or less equal. The disputes among them over the appointment of district committee presidents and other office-bearers in Sabarkantha, Rajkot and Jamnagar had not yet been resolved. Now other districts like Baroda have been added to the 'disputed territory'. As the disputes among the factions were bound to be reflected in the selection of party candidates for the coming elections, a novel selection formula appears to have been worked out. Under this arrangement, neither the DCCs nor the state election committee has been left with much power in the selection of party candidates. The final selection powers are vested in the High Command. The DCCs, working under the supervision of an observer deputed by the GPCC, will recommend a panel of three candidates for each constituency. As all the three factions are almost equally represented in the GPCC election committee, the arrangement of appointing observers will ensure that in the selection of the panels of three candidates by the DCCs, none of the factions will be in a position to override the wishes of the other two. The panel of candidates for each constituency will thus represent at least two of the factions, if not all three.

The fact that three candidates are to be selected initially for every constituency indicates that the three factions are almost equally powerful and that the High Command does not want to reveal its preferences at this stage. It is against this background of the factional power-balance within GPCC that one has to view the opposition of the pro-Forum and pro-Chimanbhai groups to the influx of defectors from Congress(O). Each of the factions favours the entry of migrants from Congress(O) only to the extent it benefits it and not the other two factions. The pro-Forum and pro-Patel factions fear that unrestricted entry of Congress(O) members will till the balance in favour of the pro-Adani faction, which in its liberal conservative attitudes is the closest to the Congress(O). Whereas if a condition were imposed denying admission to those who had "criticised the PM in the past" this would benefit the anti-Adani factions.

The coming elections in the state will be fought not between political parties, but between the three factions in the Congress. And even this fight will be decided not by the electorate but by the Central Parliamentary Board which will distribute the Congress tickets on the basis of the panels of names suggested by the DCCs.

Between the Three Factions

The advantage of this novel method of selecting party candidates for the Prime Minister is that out of the panels of candidates, she can pick those belonging to the faction which she ultimately favours for controlling the legislative wing of the Gujarat party. Now that the victory over Pakistan has turned the election into something of a walk-over for Congress (R), the selection of the party candidates need not be excessively influenced by the candidates' ability to win in the election. The Prime Minister will thus have a free hand in making her choice of candidates and factions. This is thus a sound strategy for foisting a Chief Minister of the Prime Minister's choice on the state without appearing to violate democratic principles. The problems she faced in Andhra, or to some extent, in Rajasthan in imposing her man as Chief Minister will thus not arise in Gujarat.

JAMMU AND KASHMIR

Who Are the Gujars?

Balraj Puri

AFTER Kashmiris and Dogras, Gujars are the most numerous community of the state. Though scattered all over the state, they are a distinct linguistic, cultural and ethnic group. In the peculiar communal, regional and cultural composition of the state, Gujars hold the most crucial balance.

Surprisingly little work has been done, however, by academic or administrative agencies to collect basic facts about this vital community. They were never even enumerated as a separate group in any census till now. For the first time, census operations of the current year have sought to collect some data about them. It will be some time more before their findings are complete and released.

The present writer made a pilot socio-economic study of the Gujar Community in the Jammu region, using a grant made available by the Indian Council of Social Science Research.

Over 100 Questions

In all, 15 families were selected from three different categories of the community. Their heads were interviewed on the basis of a schedule of over 100 questions. Five of these families were of mobile Gujars who were contacted at Ban Tala, 12 miles from Jammu on their way to the Kashmir region. A sample of five was taken from a predominantly Gujar locality in Mendhar, near the cease-fire line in Poonch district. The remaining five were selected from Gujar Nagar, a Gujar concentration amidst urbanised surroundings near Jammu city.

The smallness of the sample does not warrant any firm generalisations. But some of the common characteristics and the similarities of views among the different respondents—far removed from one another—may be more than a mere coincidence. The main objective of the study, in fact, was to evolve a few hypotheses which might be further tested through a fuller study later. As the hypotheses turned out to be plausible and interesting, these are being presented here.

Out of the 100 members of the families of the respondents, only nine are educated, eight of them are read up to primary while one is under-matric. Out of the nine educated persons, seven belong to families living in Gujar Nagar near Jammu city. None of the educated persons is above 42.

The main profession of the respondents settled in Mendhar is agriculture, with dairy farming as a subsidiary occupation. The respondents living near Jammu are mostly engaged in dairy farming with casual labour as a subsidiary occupation. The principal profession of the mobile Gujars, who were interviewed at Ban Tala, is sheep-breeding with casual labour as a subsidiary profession. These represent the three broad categories of the community.

The agriculturist families of Mendhar own land of between 7 and 36 kanals for cultivation. They have an almost equal amount of land for grazing purposes. The area of land owned by most families has remained what it was in 1946-47. Only in one case has the area of land owned increased, from 4 kanals in 1946-47 to 10 in 1960 and to 15 on the date of the survey. In another case it decreased from 25 kanals in 1946-47 to 6 kanals in the same period. There is also no appreciable increase in the building area owned by most of the respondents, except that, in a few cases a part of *kacha* area has been converted into *pacca*. None of the agricultural families has adopted modern agricultural practices such as use of chemical fertiliser and improved varieties of seed. The crop grown by them is invariably maize, used mostly for home consumption.

No Significant Improvement

The non-agricultural respondents, too, do not admit to any significant improvement in their material assets since 1946-47, in terms of number of livestock or amount of gold or silver in their possession—except that a few of them now possess a radio or a watch. However, some of the respondents—both agriculturists and non-agriculturists—report depletion of their assets since 1946-47 and 1960.

Yet a detailed study of the family budgets for 1946-47, 1960, and the current year, reveals a substantial rise in expenditure as well as income of all but one respondent. The increase in expenditure is not entirely due to higher cost of living, but is also accounted for by items like transport, ceremonies, medical treatment, etc. The average per family monthly expenditure has risen from about Rs 100 in 1946-47 to Rs 216 in 1960 and to Rs 285 in 1970. The average income in this period rose from Rs 105 in 1946-47 to Rs 192 in 1960 and to Rs 259 in 1970. The percentage spent on food consumption from the monthly expenditure of an average Gujar family was over 45 in 1946-47; it dropped to just over 33 in 1960 and rose slightly again in 1970.

A word of caution is necessary in generalising on the basis of this data. First, the sample may not be representative of the entire community in this as in many other respects. Moreover, the Gujar respondents are not very well-versed in accounts, particularly when they are quoting from memory on data relating to as far back as 1960 or 1946-47.

While some improvements in the methodology of the survey might help in collecting more precise and reliable data on the impact of the development plans on the economic life of the Gujars, it might be safe to conclude from the present study that their incomes as well as their expenditures have risen, although their estimates of incomes and expenditures might not be precise.

Reflection of Discontent

But what is no less important is their conviction that their incomes are not rising proportionate to their expenditure. Even if this may be a biased conviction—which has to be further tested—it is yet a reflection of their discontent and their feeling of being neglected. Elsewhere in their interviews, they expressed this feeling more specifically.

The size of the families of Gujars listed in this survey is generally not very large. Except for one family of 16 members, the average for the remaining families is just six. But though the size of the family is becoming smaller, kinship or affiliation with extended families continues. The mobile families, for instance, still move as a single group.

Out of 15 respondents, seven had married once, while the rest had married two to five times. One-third of them had divorced their wives. Usually, they had to pay a couple of hundred rupees as *Mehar* to get a divorce. In one or two cases the amount was nominal. Most of the first marriages of the respondents were arranged by their parents. But almost half of their last marriages were arranged by themselves. The dowry system is prevalent; but in many cases the respondents too had to pay to the parents of the brides they married. The amount of payment varied from Rs 100 to Rs 1,600. Normally, those who married more than once had to pay more.

Marriages are becoming more expensive in another sense also. Each subsequent marriage has normally cost more than the former, not only in terms of payment to the parents of the girl but also in terms of expenses on ceremonies. This is further borne out by the fact that most of the respondents spent more on the marriages of their children than was spent on their own marriage.

In most cases, parents have chosen the matches of their children. But 9 out of 15 respondents indicated that they would not mind it if their sons selected their own brides. These parents included all the five respondents from Gujar Nagar of Jammu. None of the parents is so liberal in respect of daughters.

Orthodox and Superstitious

Marriages among the three main subgroups of the community—Banihara, Bakarwals, and the stationary Gujars—are generally permitted. But only four respondents would allow their sons to marry non-Gujar Muslims. None, however, would like their sons to marry non-Muslim girls or their daughters to marry non-Gujar boys. Kidnapping does not seem to be completely taboo. Though most of the respondents would not like their sons to kidnap a girl, three of them would permit such sons to live with them, and a fourth was indecisive.

In religious matters, Gujars are generally orthodox and superstitious. They follow most of the standardised customs of Islam. All the respondents have performed the circumcision ceremony for their sons. They are not aware of any reason for doing this except that it is a religious duty. Most of them offer prayers every day. But only four do it five times a day. On Id all of them pray. The frequency of prayers declines with wives and children. Wives of only two respondents and children of only one offer prayers five times a day.

Most of the respondents also fast during Ramzan, varying from 15 to all days. Here, too, regularity is less among women and children. One of the respondents has been to Haj, while 11 more wish to go. Most of them go to religious places and Ziarts, mostly within the state. Only one of them has gone out of the state, for the purpose.

Knowledge of Islamic principles among the respondents does not seem very rich. Only two of them were aware of the five articles of faith of Islam, while seven could recall the five practices enjoined on Muslims.

More than the *maulvi*, it is the *pir* who wields influence on the Gujar community. The *maulvi* is invariably invited to perform the circumcision ceremony and ceremonies connected with the birth of a son. But for other ceremonies, like death, marriage, and engagements, his presence is not so indispensable. His advice is rarely sought on non-religious matters. Only one respondent who did this consulted him on family matters. On the other hand, all the respondents believe in the *pir* and seek his blessings for their health, for prosperity, and for getting children. Faith in him is traditional and extends to religious as well as secular matters.

Belief in the existence of jinn and witches seems widespread. Only four respondents did not believe in them. The same number also denied the existence of Bun Budhy—a mythical creature supposed to possess supernatural powers. However, those who believe in its existence did not claim to have seen it but only to have heard about it from others. Only four respondents eat beef; others abstain either because it is contrary to the traditional practice or because it is prohibited by the state.

Politically, all the respondents support the Congress party. They voted for the party and would vote for it again in the next elections. Their main reason for doing so is that the Congress is a ruling party. Two respondents in addition believe that its principles are good while three others support the party because the leaders of the community asked them to do so. Except two all professed to vote for the same party even if a Gujar candidate opposed its non-Gujar candidate.

Out of the national parties, all respondents know of Congress. The other party known to them is the Jan Sangh while only one Gujar knows of the PSP as well. In addition, four are aware of the National Conference as a state party, four others of the Plebiscite Front, and another of the Democratic Conference which is the state unit of CPI (ML).

Indira Gandhi's name is known to all the respondents as the foremost national leader, followed by Y B Chavan known to four respondents. Among the state leaders, nine respondents indicated their preference for G M Sadiq, three for Sheikh Abdullah, one for Bakshi Ghulam Mohammad, and one for the Gujar Deputy Minister, Mian Bashir Ahmed. For the choice of a regional leader, there is no unanimity. Names of Union Minister, Karan Singh, Jan Sangh leader, Prem Nath Dogra, State Minister, Trilochan Dutt, and Harijan leader, Bhagat Chhaju Ram, were mentioned.

Among Gujar leaders, most popular names were that of the former Deputy Minister Choudry Mohammad Shaffee and that of the present Deputy Minister Mian Bashir Ahmed. Others mentioned include N D Kataria, Mohd Aslam and Sarwari Kasana.

All the respondents believe that Gujars are not getting their due share in the state. They are neglected in the services, in representation in government and political parties, and also in the share in government facilities such as business loans. All respondents but one believe that Kashmiris are getting a better share in most of these fields at the cost of the Gujars. Six of them further believe that, in addition to Kashmiris, Hindus of Jammu, too, were better off at their cost.

Though politically, most of the respondents are not clearly aligned with any other community, linguistically they are closer to the Dogras and the Punjabis. For second language, most of them can speak Dogri or Punjabi. Only one respondent claimed to speak Kashmiri also.

Crucial Questions

In a state full of diversities—cultural linguistic, religious, geographical, etc—what is the role of the Gujars? How far are they moved by regional or religious pulls and how far does their sense of their own identity withstand these pulls? How far does the acceptance of the Dogra leaders as regional leaders and their understanding of Dogri language signify their identification or assimilation with the region they live in? Within the region, with which communities are they more closely aligned? Out of the Rajput, Brahmin, and one Harijan regional leaders whom they have mentioned, who would be more acceptable to the majority of them? How well-adjusted or mal-adjusted are the Gujars living in the Valley within a Kashmiri political and cultural framework?

These are the crucial questions that the present study has further posed. They would determine in no mean measure the future political and cultural trends in what, in many respects, is the most vital of states of the republic of India.

SINGAPORE

Patriots Overnight

Harish Chandola

THE spectacle of so many people turning into Bangla Desh patriots overnight these days frightens one. The new-born nation appears to be in danger of being overwhelmed by educated mercenaries who are now jumping on the bandwagon of Bangla Desh patriotism in the hope of landing good jobs in that State, now practically without civil servants.

Singapore journalists were witnesses to one of these spectacular overnight conversions. In the second week of December there arrived at Singapore airport, with Mian Ziauddin, the Special Envoy of the then Pakistan President, Yahya Khan, a smartly-dressed Bengali, Shams-ul Alam, the Director of the South-East Asia Division of Pakistan's Foreign Affairs Ministry. The two had been sent by President Yahya with personal letters to heads of Governments in Japan, Indonesia, Singapore and Malaysia to peddle Pakistan's point of view on Bangla Desh and the conflict with India.

Mian Ziauddin was an elderly retired diplomat who spent most of his time on the Peshawar golf course. He was brought out of his retirement to lend respectability to the mission. But the real man to explain Pakistan's point of view was Alam. At Singapore airport, on arrival from Jakarta, the two held a press conference. Reporters put their questions to Mian Ziauddin, but it was Alam who kept prompting answers in Urdu to Ziauddin, who then put them in English for the reporters.

Five days later, Alam was performing the same role at the press conference of K K Panni, the Special Envoy of the Bangla Desh President to South-East Asia. Panni was holding his first press conference in Singapore and was telling reporters that he was presenting letters to various Governments in the region, requesting them to recognise Bangla Desh. And again it was Alam who was prompting Panni, this time in Bengali, with answers.

How did this transformation take place?

Both Mian Ziauddin and Alam, after explaining Pakistan's case to the Singapore Prime Minister and Foreign Minister, and once again to the Singapore press at a cocktail reception, had gone over to Malaysia on the same mission. While they were there, Dacca fell, and six employees of the Pakistan High Commission there, all of Bengali origin, gave up their jobs and declared their allegiance to Bangla Desh. At that juncture they were joined by Alam, who promptly abandoned his mission with Mian Ziauddin. The Bangla Desh envoy, Panni, was in Kuala Lumpur at that time, on his mission to request Malaysia to recognise his country. Alam joined him and is now travelling with Panni to the same countries to which he had been only a few days earlier with messages from Yahya Khan!

Perhaps one could understand this kind of overnight change in India but not in South-East Asia. Reporters here were greatly intrigued by Alam representing with passion two different causes within a week.

Alam is not the first or the only one playing this kind of opportunist role. Among the defectors, after the fall of Dacca, was the second man in the Pakistan High Commission in Kuala Lumpur, Abdul Qayum. His home too is in Bangla Desh. Since March he had been acting as the main spokesman of the Pakistan High Commission and asserting that there was perfect law and order in what was then East Pakistan, and that "the Indian efforts" (he described the December 1970 elections there as "Indian efforts") to separate Bangla Desh from Pakistan had not succeeded.

In April, when Bangla Desh was most disturbed because of the terror unleashed by Pakistani troops there, Qayum was telling everyone in Kuala Lumpur that law and order had been quickly restored and, to strengthen the statement with his fancy, he was giving instances of his having received letters from his relations in Sylhet, the northern town. When the Indian Army marched into Bangla Desh, he was decrying "Indian aggression".

But the day Dacca fell, Qayum turned into a Bangla Desh patriot and gave up his allegiance to Pakistan. Now that he has changed sides, he claims credit for having helped Bangla Desh in secret while working for Pakistan. He claims that he burnt, at his residence, several copies of the Pakistan White Paper on Bangla Desh, meant for distribution. He now also says that he is a relation of Muzaffar Ahmad of the leftist National Awami Party (who was also one of the founder-members of the Communist Party in undivided India).

I could give several other examples of those who had a change of heart overnight in this area. But the purpose is not to compile a list of such people, but to say that it will be a sad day for Bangla Desh if these people assume control of the destinies of that country in any sphere. This is not an idle fear, because some of them are acquiring important positions in the new regime.

In this regard, I again give the example of Alam. Panni, the Special Envoy of the Bangla Desh President to South-East Asia, has acquired the services of Alam, as his deputy, to help him in his mission to seek recognition for Bangla Desh from South-East Asian nations. Panni said that it would take "a little time" before Alam became a Director of Bangla Desh Foreign Affairs Ministry!

Why is Bangla Desh so keen to recruit turncoats? Panni's argument is that since Alam was a Director of Pakistan's Foreign Affairs Ministry, he has knowledge of running a ministry. And since he was looking after Pakistan affairs in South-East Asia, his knowledge of the region would be of use to the new Government of Bangla Desh.

But is Bangla Desh being created in the image of Pakistan, with the help of opportunists? Must knowledge of handling Pakistan affairs be borrowed to create a new administration?

Panni himself was Pakistan's Ambassador to the Philippines until September 1971. He is perhaps aware of no other pattern than the one of which he was a part. And when it comes to taking others in, whom else will he take into the new administration but his old colleagues? Obviously, the efforts of these gentlemen are to conduct the affairs of Bangla Desh in the manner in which they had conducted the affairs of Pakistan earlier.

At the press conference, Panni was the classic image of a diplomat. (Unfortunately, many countries in this region have not allowed him to hold press conferences.) At his Singapore press conference, the only one he could freely hold in this region, he was very stern with reporters who kept asking questions and did not take for granted whatever Panni had himself taken for granted about the role of his new nation. Bangla Desh is a new nation, about which much information is not available. All questions therefore had to be answered with a degree of understanding. Various matters had to be explained. But Panni hardly made any efforts at explaining things.

"What will you do for currency?" a reporter asked him. Panni had a ready reply: "We will use Pakistani currency, superimposed with the stamp of the Bangla Desh Government."

"What will the economy of Bangla Desh be like?"

"Don't you know that Bangla Desh is very rich? Did you not read *The Economist*, which said the only way the Bangla Desh economy could go was 'Up, and Up'".

I was tempted to ask what he proposed to do about the millions of landless labourers, the millions of unemployed and the millions of starving people in that fabulously rich country? Pakistan had devised a system of robbing them and was Bangla Desh going to use that same economic system? But I did not embarrass him.

I do, however, wonder if people as naive as that are going to conduct the affairs of Bangla Desh? Is the country going to be in the charge of people who know no other social, economic and administrative system than that of Pakistan? Because if that is going to be so, there will be another struggle in Bangla Desh by its deprived millions. There is even the danger of the present struggle prolonging itself and becoming an economic struggle against those who appear to be aspiring at filling the vacuum created by the departure of the top echelons of the Pakistan economy and administration.

DAR-ES-SALAAM

Namibian Struggle Enters New Phase

A K Essack

ON December 13, the Ovambo, Damara, Nama, Okavango and Herero workers from the various tribes of Namibia (South-West Africa) went on strike. The strike began among workers in the capital of Windhoek and it was so well-organised that, within days, the workers of Tsumeb, Walvis Bay, Luderitz and Kombat also struck work. Over 10,000 downed tools and threw away their overalls.

The strike has paralysed factories, mines and construction projects. Train and bus services have ground to a halt. So effective has been the stoppage that the South African rulers have been forced to use troops and school children to offload perishables from trains and deliver milk and bread to the jittery white settlers.

The demands of the workers are simple. They want an end to the hated, mediaeval, contract system, under which they are recruited from the tribal reserves, euphemistically called "homelands", and kept in bondage for predetermined periods. The contract system has no place in most of the rest of the world where a worker, at least theoretically, has the right to sell his labour to the highest bidder. The workers also want equal pay for equal work and an end to job discrimination. Some of the biggest employers of labour, including Oppenheimer's mines, discriminate against Namibians. Though the Oppenheimer empire puts up a liberal facade by backing the Progressive Party of South Africa, it pays white miners an average of £ 1,220 a year while the Namibians only get around £ 102 a year. In Tsumeb, where the mines are American-owned, the position of the Namibian workers is the same as in the South African-owned mines.

In South Africa as well as in Namibia, any independent activity on the part of the African people to remedy their miserable lot attracts immediate police attention. So brainwashed are the police that any strike automatically means that a revolution is around the corner. When negotiations broke down between the representatives of the 5,500 workers in Windhoek and their employers, the South African police moved in.

Africans cannot form trade unions in Namibia for the Industrial Conciliation Act defines the word "employee" so as to exclude them. And only "employees" are allowed to form trade unions. In this way, African workers are prevented from organising themselves openly. But Namibia's magnificent strike — total in its nature — has shown the organisational capacity of the workers. It is bound to inspire workers in South Africa and Zimbabwe. Not only have the workers, whether in Walvis Bay or Tsumeb, come out with identical demands, but they have also acted in a highly disciplined manner. Agents provocateur in one place tried to incite some strikers to set fire to a factory compound. But the workers refused to do this, as they knew the limits of their strength. To use violence, however slightly, would have given the trigger-happy police an excuse to open fire and massacre the unarmed strikers. Through a firm unity of purpose the workers of Namibia have won the first round. They have demonstrated their strength by the collective withdrawal of their labour power.

The strike seems to have taken the South African security services completely by surprise. The police did not behave as they usually do. They did not, this time, arrest the strikers en masse, fling them into prison or shoot them, as has been their practice in 'dealing with' the Namibians. Perhaps, the authorities realised that open repression of the workers would set off a wider explosion.

Some Namibians have already begun an armed struggle against the white South African regime. Toivo Ja Toivo, the founder-leader of the South-West African Peoples' Organisation (SWAPO), whom police terror and torture could not intimidate and who is now serving twenty years imprisonment, said at his trial: "I had no answer to the question, 'Where has your non-violence got us?'. I had no answer to give my people ... I admit that I decided to assist those who had taken up arms ... Only when we are granted our independence will the struggle stop."

The armed struggle is gaining momentum. Last September and October, SWAPO guerillas carried out some effective attacks. SWAPO's communique said: "Heavy guerilla attacks have been taking place in the River Kavongo basin and Caprivi strip. It is in these areas that the illegal administration has made mass and forced removals of Africans and pushed them into barbed wire concentration camps ... Grootfontein-Runti highway, which is the enemy's support and supply line, was the scene of relentless guerilla ambushes. On October 4, two enemy vehicles struck landmines. The truck and 30 enemy soldiers were blown to bits". This then is the peoples' reply to the annexation of Namibia by the Vorster regime. For 25 years the issue of Namibia has been on the agenda of the United Nations. Resolution after resolution has been passed every year. Resolutions have been passed depriving South Africa of its mandate. But South Africa has ignored the UN with impunity.

The Namibians, like the oppressed elsewhere, have learnt the hard way that they have to rely on themselves. They have launched a people's war and now they have shown how a general strike can be used with devastating effect against the oppressor.

Victors Can Be Generous...

Nireekshak

"THE guns are silent", wrote *Hindustan Times* on the morrow of Pakistan's acceptance of India's cease-fire offer in the west. "But the cease-fire should not be allowed to remain a desultory armed peace." Zulfikar Ali Bhutto had not yet been sworn in as the new President of Pakistan. When he was, his radio broadcast, as well the measures of reform he announced soon after, were to become subjects of animated discussion in newspapers. Some newspapers regarded the cease-fire itself as the appropriate point at which to turn attention to Pakistan's internal problems. During the war, Pakistan was very simply the 'enemy' and the press was mainly interested in playing its part to ensure the victory of Indian arms. With victory won in Bangla Desh and a cease-fire agreed upon in the west, attention began to be focused on some of the problems that war and victory had brought in their train. These problems—first, internal to India and Bangla Desh separately and, secondly, concerning Indo-Bangla Desh relations—the press has generally recognised will be with us for some time to come.

Meanwhile, what of Pakistan? Comments on the recent changes in Islamabad clearly show that the press is aware the war has not solved the problems of Indo-Pakistani relations;' only that they have entered a different and, from India's point of view, a somewhat more hopeful stage. "The subcontinent has been restructured", said *Hindustan Times*. "But the process need not end there. It is possible to envisage a variety of arrangements which could harmonise existing tensions.... The options for such a grand design should not be thoughtlessly foreclosed out of vindictiveness or petty thinking." India, the paper added, "should exhibit neither pride nor arrogance but show Pakistan the utmost generosity. India has a great power potential and must show an equal greatness of spirit and vision.... Ultimately, the people [of Pakistan] must come into their own. And when they do they must be able to recognise in India and even in Bangla Desh, a friend and a brother."

Then what is Bhutto up to? Bhutto's first pronouncement, commented *Tribune*, was "alike for its incoherence and banality an incredible performance for the head of a State facing its moment of truth.... The violence of Mr Bhutto's language outdoes that of his blood-and-thunder predecessor. Once the fallen dictator is said to have declared: "The people did not bring me to power. I came myself." Now his successor is saying in effect: "The people brought me to power. I came in spite of myself."... Pakistan's new leader is doing a grave disservice to his people by seeking to perpetuate the fiction of one Pakistan", *Tribune* said.

Unlikely to Succeed

As a matter of fact, remarked *Hindustan Standard*, "Bhutto has given sufficient indication that he is hell-bent on undoing the dismemberment of Pakistan. Whether this will mean the end of whatever remains of the theocratic state of Pakistan does not seem to be his concern." The paper thought it was the Pakistani President's intention "to work on the Father of Bangla Desh so that he may agree to have a link of sorts with Pakistan which will enable Mr Bhutto to claim that dismemberment of the country has been avoided." But, according to *Amrita Bazar Patrika*, this ruse was unlikely to succeed. The 'Muslim Bengal' of Bhutto's imagination has "emerged as a secular, socialist State [and] will not revert to mediaeval theocracy at his bidding.... A flowing stream of blood and tears divides the two countries which once formed a single State. Mr Bhutto can try to build a bridge by facing the verdict of history with understanding and goodwill and developing new relations on the basis of the recognition of realities. It is a tragedy that he is not capable of such statesmanship."

At least two newspapers, *Hitavada* and *Indian Nation*, wondered if Bhutto would stop with his wordy warfare. "Mr Bhutto is likely to take quite a long time to reconcile himself to the reality of the existence of the sovereign People's Republic of Bangla Desh", observed *Hitavada*. "Bhutto hopes for reconquest of Bangla Desh with the help of USA and China, with whom he proposes to have closer ties. Indeed one wonders if Bhutto has reconciled himself even to the existing cease-fire line between India and Pakistan...." Said *Indian Nation*, "it will be unwise for Indians to dismiss Mr Bhutto lightly.... He has promised to take revenge and is utilising all the tactics of warmongers." It was Bhutto who had prevented Yahya Khan from accepting "the inevitable" after the results of last year's general election.

Only *National Herald* seemed to have a good word for Bhutto. "Bhutto has taken certain steps which seem good for his country", it asserted. "He may appear erratic, volatile and hasty, but if he is following a concrete plan, he may succeed where his predecessors have failed and Pakistan may regain some of its strength and unity.... The break with military rule, however, cannot be an easy process", it said. Bhutto can "go on hoping against hope" to bring Bangla Desh back into Pakistan. But "what is relevant is his actions in his own country and not his imaginary control over a country that has already become independent".

Taking a brief respite from the problems of war in the subcontinent, newspapers found time to dwell on another subject of interest to India: the declaration by the UN General Assembly of the Indian Ocean as a zone of peace. Was this really a "blow for peace?" asked *Free Press Journal* with unconcealed scepticism. "It is good as far as it goes.... But it is not quite clear what practical purpose the resolutions may serve." The paper pointed out that among the five permanent members of the Security Council, only China had voted for the proposal, the other four abstaining from the voting. "With the United States extending the jurisdiction of the Seventh Fleet from the southern Pacific to the Arabian Sea, a nuclear presence may be said to have been already established in the Indian Ocean", it said. And with the Anglo-American powers intending to help South Africa "maintain a strong naval presence around the tip of Africa", and the Soviets also making their presence in the Ocean known, it was not very surprising that they all abstained. In such circumstances, does it take much imagination to realise why China has voted for the proposal?"

It is arguable, remarked *Statesman*, whether "China would have lined up with Ceylon, India and Pakistan if Peking's naval power had matched either its land forces or the stridency with which it is learning to speak in world affairs.... The voting throws interesting, but by no means unsuspected, light on the identity of interests that is responsible for the present Soviet-American rivalry in the Indian Ocean."

Rehash of Old Ideas

Partap C Aggarwal

Social Change and Problems of Development in India by G R Madan; Allied Publishers, Bombay, 1971; pp viii + 134; Rs 15.

G R MADAN's book, "Social Change and Problems of Development in India", is a bold endeavour in which the author tries to examine "economic, political, legal, administrative, technological, religious, cultural, etc" (p 13) factors as they all have a bearing on modernisation and industrialisation. According to Madan, the complexity of these factors is recognised by intellectuals and political leaders who, however, lack an "understanding". So, the avowed purpose of the book is "to make these intellectuals understand these difficulties in the proper perspective..." (p 13).

In the first chapter, the author gives a brief survey of theories of social change and economic development. He quotes several sociologists and economists, and indicates which viewpoints he himself would endorse. Chapter two is on problems of industrialisation. Here, the author discusses a wide array of topics, such as population growth, entrepreneurship, capital formation, technical knowledge, and the role of foreign agencies in industrialisation. The third chapter is on urbanisation. In chapter four, problems of rural development are surveyed. The fifth and last chapter covers a staggering number of sub-topics.

The book is stylistically both concise and smooth. One can read it without feeling cramped—although for the uninitiated reader the text may appear a bit heavy in places. In the opinion of this reviewer the book will prove useful for a variety of potential readers. For example, by reading this book a political leader will learn about the complexity of problems relating to social change and development, an intelligent layman will become acquainted with ideas of social scientists, and a college student will be aided in his preparation for the exams. The price of the book (Rs 15.00) and its size (134 pages) are both desirable from the point of view of accessibility.

However, the quality of the volume would have been greatly enhanced had it contained a sharper focus and a more consistent theme. As it stands, it tends to ramble from topic to topic and fails to connect them with a common strand of theoretical perspective. Nor is the book conceptually very clear. The author uses concepts of various disciplines, without attempting carefully to tie them together. As a result, the different portions of the book appear disjointed and the reader is left without a feeling of having grasped one or two central points which he can remember. In other words, the reader is likely to get lost—especially if he is uninitiated in social science literature.

Uncritical Acceptance

A more serious weakness of the book is the author's tendency to accept outdated ideas uncritically. For example, the author states that, "in traditional Hindu society, the highest premium was placed on social roles that either excluded economic pursuits and activities devoted to material gains, or at least subordinated them to non-economic goals and interests" (pp 31-32). This view was held by earlier European scholars, but recent researches by social scientists have shown that this is not necessarily true. Researchers have noted that the dominant castes' privileged position and high rank were based on economic factors like ownership of land and on political power mainly derived from economic strength. Thus the dominant castes in North India were often Thakurs, Jats, Sikh Jats, Meos, and other cultivators, and not Brahmans. The Brahmans enjoyed high ritual status, only in a superficial sense. The landowning castes esteemed the Brahmans mainly because the latter helped to sanctify the caste system beneficial to the former. The Brahmans did enjoy the highest rank in South India, but here their ritual position was combined with economic and political power. In fact, it has been demonstrated that a majority of even the religious rituals and activities of the Hindus were directed toward material goals: e g, health of plants, animals, and people; good weather conditions; profit in business; etc.*

The book is filled with examples of the uncritical attitude of the author. On page 105, he claims that the theory of Karma led to fatalism. Is it really true? Although many villagers tend to explain their misfortunes in terms of Karma, is it not usually as a last resort? Don't they till the soil as best they know how, and then, if the crop fails, blame their Karma? Isn't it usually the lack of economic incentives and non-availability of improved technology that have prevented Indian peasants from working hard and from modernising agriculture? If not, why have they changed so fast in Ludhiana, Coimbatore, and elsewhere in the last six years?

On page 117 Madan claims that tractors reduce employment. Is this a fact, or just folklore? It has been noticed that use of tractors in Ludhiana district, till now at any rate, has improved both employment opportunities and wages.

The conclusion that is drawn at the end of the book is rather disappointing, and it neither flows from the text nor tells us anything profound. It runs thus: "Unless the political leaders and other elite group themselves set the example of hard work, honesty, love for manual labour and business and helping the poor there seem to be little hope for rapid progress. The sooner we realise this, the rapid will be the progress." (p 134).

To be fair to the author, this reviewer must admit that he is judging the book on the basis of new ideas which are still not universally accepted. Yet one cannot possibly ignore the absence of current ideas in a book published in 1971.

* See Morris E Opler, 'The Place of Religion in a North Indian Village' *Southwestern Journal of Anthropology*, Volume 15, Number 3, 1959, pp 219-226.

Books Received

Bansil, P C: Agricultural Planning for 700 Millions — A Perspective Study; Lalvani Publishing House, 1971; pp x + 458; Rs 50.

Chakraborty, Ashit: Foreign Language Teaching: An Area Studies in USSR; Emjay Publications, New Delhi, 1971; pp 64; Rs 7.

Dharampal: Civil Disobedience and Indian Tradition — With Some Early Nineteenth Century Documents; Sarva Seva Sangh Prakashan; Varanasi, 1971; pp lxiv + 122; Rs 15.

Gadgil, D R: The Industrial Evolution of India in Recent Times, 1860-1939 (Fifth Edition); Oxford University Press, 1971; pp vi + 362; Rs 25.

Joshi, S M: Socialists' Quest for the Right Path; Sindhu Publications; pp 187; Rs 20.

Flashes about Our Innards

The Ordeal of Nationhood : A Social Study of India since Independence, 1947-1970 by Krishan Bhatia; Atheneum; $ 10.

AT the risk of being called to order for arguing over semantics, Krishan Bhatia's penetrating study of India concerns itself primarily with politics and only peripherally with society. In that sense it is not a social study *per se;* but that does not detract from its intrinsic worth. For Bhatia has done what few Indians have done before: he has given an overview of the Indian scene, with all its gullies and nullahs, its rubbish heaps and dunghills, with refreshing candour. Such a volume was long overdue. Others — mostly foreigners — have attempted the task in the past, but essentially and inevitably as outsiders. This is the insider's view of India.

The title of the book is apt: Bhatia does exactly what he claims in it; he writes about the ordeal of Indian nationhood. But it is not the scholar's guide to the politics of the subcontinent. There are no elaborate footnotes, no cross-references, hardly any quotable quotes. Bhatia is not out to dazzle the reader with the depth of his scholarship though, undoubtedly, a vast amount of research has gone into the writing. And yet, it is unpardonable for an Indian writer to refer to Kannada as Kanari or to Malayalam as Malayali. And it is poor understanding of Brahmanism to equate it with other-worldliness. Almost the entire first generation of top leaders in India, activists all, consisted of Brahmans. One can but mention Bal Gangadhar Tilak, Vir Savarkar, Jawaharlal Nehru and Shyamaprasad Mukherjee.

Bhatia's fault lies in accepting cliches and giving respectability to marginal truths. He "indulges in a measure of generalisation" that is positively dangerous. And yet, it is in so doing that he measures the strains within Indian society, so necessary for any understanding of the country as a whole. He comes down heavily on all groups, religious, political and national. He has little respect either for Hindu or Muslim bigotry and comes to the rightful conclusion that "on closer scrutiny, the average Indian's zeal is more for the form than the substance of his religion". There are flashes of intuitive knowledge as when he says that what Indians yearn for is "a just society, not a democratic one".

Vast as the Indian panorama is and fleeting the pages of history, certain personalities called for greater portrayal. And, when he says, "the majority" of Indian legislators "are men of modest means, many perilously close to the poverty line", the temptation is to ask for exact statistics. How many really are from among the poor? And how did they make it to Parliament? 'A social study', as Bhatia's book is described, would have discussed, at least briefly, the reason for the rise of certain leaders in terms of their social background. He refers to how the Hindu Jats of Punjab were pitched against Sikh Jats of another part of the state, leaving the reader blissfully ignorant as to who the Jats are or how one set was pitched against another and what the power game was in terms of. One case study in some detail would have sufficed. Moreover, can we really accept Bhatia's word that Nehru did not discern the revolt in Madras against Brahman domination until quite late? Nehru may have been opposed, intellectually, to caste factionalism. But to project from this premise that he did not 'discern' what was going on right under his nose is sadly to underestimate India's first Prime Minister and often-time president of the Indian National Congress. Nehru's failure was more in his assessment of the forces, understandable in a man whose rationalism overrode the irrationalities of caste politics in pre-Independence days.

Bhatia also ignores the role of the cinema or the significant role that the film has played in moulding the thinking of the Indian citizen since 1947. There is no discussion even of Indian literature. The five paragraphs that Bhatia gives to the Indian press do justice neither to the press nor to those who profess journalism. Bhatia says that "the profession is dominated now by journalists whose competence is beyond doubt but who are in it largely for the financial rewards". But if Bhatia ignores many important aspects of national life, his assessment of the Indian Army remains one of the best and he speaks here with considerable first-hand knowledge of the soldiers who led it. Bhatia hazards that, because the climate is worsening for democratic institutions, "it is not unthinkable that a situation similar to the one in Pakistan, which paved the way for a military dictatorship, could develop in India".

Given the scope of the book, nevertheless, it is amazing that Bhatia has been able to present a coherent picture of India circa 1971. He has dexterously avoided falling between doing an Inside India job *a la* John Gunther and writing a learned tome, but he surely should have been more attentive than to say that Aiyers are somehow superior to Ayyangars (who says so?) "and will not contemplate a matrimonial alliance" with them.

The task of describing how so complex a nation as India has set about defining itself cannot possibly be easy and we are denied an introduction by the author explaining what it is that he set out to do. But he has to have thanks for what he has done, which is to hold the mirror to his countrymen in regard to their values and attitudes.

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Growth of Small Towns in Gujarat

K B Suri

This study examines the growth pattern of small towns in Gujarat during three Census decades with the focus on the 1951-61 decade. The study seeks to

(a) compare the growth of small towns with that of towns and cities of other sizes; and,

(b) explain variations in the growth of small towns during 1951-61 in terms of (i) initial population of the town; (ii) economic structure of the town; (iii) location of the town; and (iv) influence of the nearest city centre.

Of the factors considered, the initial population base and the economic structure of the town and of the nearest city were found to be of little importance. The locational factors, on the other hand, appeared to exert an important influence on the growth of small towns.

RAPID growth of population and even faster growth of urban population in less developed countries have brought to fore the importance of planning for urban development as an integral part of socio-economic planning. Recent interest in the process of urbanisation in these countries has given rise to questions regarding patterns of urban growth and also relevance of spatial elements for urban and regional planning.[1] A few studies by the United Nations have pointed to a process of concentration of urban growth in several Asian countries and also inferred that the larger among the urban places have been growing at a faster rate.[2] The implication is that large urban centres have rapidly grown in population at the expense of villages and small and medium size towns.

The present study examines the growth patterns of small towns in Gujarat state during the three Census decades, with the focus on the 1951-61 decade. The small town has been defined as an urban place with a population below 20,000 at the beginning of the reference period. The objectives of the study are:

(a) to compare the growth of small towns with that of towns and cities of other sizes for the decades 1931-41, 1941-51 and 1951-61; and

(b) to explain the variations in the extent of growth of these small towns during 1951-61, in terms of:

(i) initial population of the town,

(ii) economic structure of the town, that is, industrial distribution of its working population,

(iii) location of the towns, that is, the type of road and the presence of railway track, and

(iv) influence of the nearest city centre through (a) economic structure of the city and (b) the accessibility of the city, determined by distance between the town and the city, the type of road linking the towns and the presence of rail link between the two.

The identification of small towns for a decade is made on the basis of their population at the beginning of that decade. The group of small towns so identified is kept fixed in its content of towns and the variation of population during the reference period is computed for the group, regardless of the population of the individual towns at the end of the decade.

The aforesaid approach (continuous approach) is also employed for comparing the growth of towns and cities classified by their initial population size. It differs from the Census approach (instantaneous approach) which classifies towns according to their population at each Census and compares over Census decade or decades variation in the population of different size categories, regardless of changes in the composition of size categories. The Census approach indicates changes in the distribution of urban population by size of locality: it does not measure differentials in the growth of urban localities arising out of differences in their initial population size.[3]

The economic structure of the towns is ascertained by the use of the functional classification of towns attempted by the 1961 Census on the basis of the industrial distribution of working force in 1961.[4] It would have been ideal to relate the growth of towns with their economic structure at the mid-point or in the beginning of the reference period. This could not be done in the present study on account of paucity of requisite data. Information about the locational and accessibility indicators has been obtained from the detailed maps prepared by Burmah-Shell Company which, in turn, were based on the maps brought out by the Survey of India.

The growth of towns is computed on the basis of population figures as reported by the different Censuses. It has not been possible to make adjustments in the variation of population on account of changes in the geographical boundaries of towns.

Sub-classification of small towns by economic or locational characteristics yields in some cases very low statistical frequencies. This has weakened the interpretation of the results.

TABLE 1 : PER CENT INCREASE IN TOTAL, URBAN AND RURAL POPULATION OF GUJARAT DURING 1901-31, 1931-61 AND 1951-61

Population	Per Cent Increase During		
	1901-31	1931-61	1951-61
Total	25.3	79.6	26.9
Urban	16.0	125.3	20.1
Rural	29.3	67.7	29.4

Source : Computed from *Census of India 1961* Vol I, Part II-A(i), General Population Tables, p 54 and p 182.

Comparative Growth of Small Towns

The level of urbanisation in Gujarat is higher than the average for the country. Nearly 26 per cent of Gujarat's population as against 18 per cent for the

TABLE 2: URBAN LOCALITIES OF GUJARAT DISTRIBUTED BY THEIR POPULATION SIZE AT EACH CENSUS, 1901, 1931, 1951 AND 1961

Size of Locality	Number of Urban Localities In			
	1901	1931	1951	1961
I *Cities*				
(a) 100,000 and above	3	2	6	6
(b) 50,000 - 99,999	2	3	5	10
(c) 20,000 - 49,999	13	19	34	40
II *Medium towns* 20,000 - 99,999	15	22	39	50
(d) 10,000 - 19,999	40	39	38	53
(e) 5,000 - 9,999	60	70	118	58
(f) Below 5,000	47	37	32	8
III *Small towns* Below 20,000	147	146	188	119
Total	165	170	233	175

Source: *Census of Inaia 1961* Vol V, Gujarat, Part II-A, General Population Tables, p 145.

TABLE 3: PER CENT CHANGE IN THE POPULATION OF URBAN PLACES OF GUJARAT CLASSIFIED BY (A) THEIR POPULATION AT EACH CENSUS AND (B) THEIR POPULATION AT THE BEGINNING OF THE CENSUS DECADE—1931-41, 1941-51 AND 1951-61

(Figures in brackets for approach (b) indicate the number of urban places)

Size of Urban Place	Per Cent Variation in Population During					
	1931-41		1941-51		1951-61	
	(a)	(b)	(a)	(b)	(a)	(b)
100,000+	141.3	75.4 (2)	56.4	41.6 (4)	41.2	37.1 (6)
Cities, 100,000+	141.3	75.4 (2)	56.4	41.6 (4)	41.2	37.1 (6)
50,000 - 99,999	3.5	42.8 (4)	3.9	43.7 (4)	127.3	21.2 (5)
20,000 - 49,999	30.9	26.0 (18)	41.8	16.0 (24)	26.4	23.4 (34)
Medium towns 20,000 - 99,999	22.8	32.1 (22)	32.4	23.2 (28)	46.1	22.9 (39)
10,000 - 19,999	12.8	23.5 (39)	—6.9	20.5 (40)	24.2	22.2 (35)
5,000 - 9,999	13.6	18.3 (56)	59.8	13.4 (56)	—46.6	28.6 (70)
Below 5,000	—4.4	15.5 (12)	2.5	24.7 (10)	—71.2	17.1 (9)
Small towns Below 20,000	11.2	21.0(107)	22.0	17.9(106)	—22.5	25.2(114)
Total	38.4	35.5(131)	35.8	27.6(138)	20.1	29.5(159)

Source: Computed from *Census of India 1961* Volume V, Gujarat, Part II-A, General Population Tables, pp 147-178.

entire country lived in urban areas in 1961. On considering the trends in urbanisation in Gujarat during 1901-61, it is found that the total population as well as the urban population registered markedly higher increases during 1931-1961 than during 1901-1931. The year 1931, thus, seems to divide the period 1901-1961 into two distinct phases. As the latter phase was relatively free from natural calamities, it recorded a larger increase in total population and a considerably faster growth of urban population. The total population during 1931-61 increased by about 80 per cent as compared to 26 per cent during the first phase and the urban population increased by 126 per cent during the latter phase as compared to 16 per cent during 1901-31. The last decade 1951-61 registered relatively small increase in the urban population, perhaps, because of the adoption of a more rigorous and restrictive definition of "urban areas" for the 1961 Census. The per cent increase of urban population during this decade was, in fact, smaller than that of rural population (Table 1). The change in the definition resulted in declassification of a large number of small urban places having a population below 10,000 (Table 2).

The use of the instantaneous approach has produced widely divergent patterns of population variation of different size categories because of shift of towns from one size category to another and also because of definitional changes which led to declassification of many small towns in 1961. There is a marked difference between the cities and the small towns with respect to the extent of population variation, particularly for 1931-41 and 1951-61, and many small town categories have registered declines in their population, specially during 1951-61 (Table 3).

More consistent patterns of population variation are determined when the towns are classified according to their initial size. Towns of all sizes have registered positive growth and the differentials for towns with different population size are considerably narrowed down.

Both the approaches show that large size categories as well as towns with larger initial population base have registered faster growth. It may also be observed that the use of the latter approach has reduced the differentials to some extent and at least during the decade 1951-61 small towns as a broad category have shown slightly higher per cent increase of population than the medium size towns.

The more pronounced differentials and more consistent patterns obtained by the use of continuous method for 1931-41 and 1941-51 have to be qualified in view of abnormal conditions that prevailed in both the decades and influenced the reported growth of population. As the author has observed in an earlier study, the urban population in 1931 was in all probability underenumerated because the economic depression and non-cooperation movement created subnormal conditions in the cities. In 1941, on the other hand, communal rivalries appear to have led to overreporting of population, particularly in large urban centres. These two factors seem to have introduced a bias in favour of cities. The 1941-51 decade witnessed the migration of about 7.0 million refugees into the Indian Union. The refugee migration was urban-ward and was concentrated in cities and large towns.[5] It is likely that the pattern of urban growth in Gujarat state during 1941-51 was, at least in part, influenced by the volume and character of refugee migration.

Factors Influencing Growth

As mentioned in Section I, urban places with a population below 20,000 in 1951 were identified to constitute the group of small towns for the decade 1951-61. The number of such towns in Gujarat was 114. There was considerable variation within this group in the extent of population increase (decrease) during the decade 1951-61. An attempt is made here to assess the relative importance of a few easily identifiable and measurable economic and locational factors in explaining the aforesaid intra-group variations.

TABLE 4: PER CENT VARIATION OF POPULATION OF SMALL TOWNS OF GUJARAT BY ECONOMIC STRUCTURE OF THE TOWN AND OF THE NEAREST CITY—1951-61

(Figures in brackets indicate the number of small towns)

Economic Structure of Town	Economic Structure of Nearest City		
	I Service	II(c) Manufacture	Total
I Service	33.2 (20)	23.6 (53)	26.2 (73)
II (a) *Mining, etc*	—	31.2 (1)	31.2 (1)
(b) Artisan	23.4 (6)	27.8 (8)	26.1 (4)
(c) Manufacture	31.2 (11)	19.5 (5)	27.3 (16)
II Manufacture	28.5 (17)	25.2 (14)	26.9 (31)
III (a) Trade	—16.2 (2)	31.1 (5)	16.4 (7)
(b) Transport	12.9 (3)	—	12.9 (3)
III Trade and transport	—5.1 (5)	31.1 (5)	15.9 (10)
Total	25.8 (42)	24.3 (72)	25.2(114)

Sources: (1) As for Table 3.
(2) Asok Mitra, "International Migration and Urbanisation in India", Office of the Registrar General, New Delhi, 1967.

TABLE 5: PER CENT VARIATION OF POPULATION OF SMALL TOWNS OF GUJARAT CLASSIFIED BY LOCATIONAL FACTORS DURING 1951-61

Location Factor	Number of Towns	Per Cent Variation of Population
A Type of road		
(1) National highway	15	42.8
(2) State highway	48	25.7
(3) District road	33	16.6
(4) Branch road	18	12.7
B Rail track		
(1) Yes	89	26.0
(2) No	25	20.4
C Type of road linking nearest city		
(1) National highway	30	19.2
(2) State highway	57	24.6
(3) District road	26	32.7
(4) Branch road	1	—0.9
D Rail link with nearest city		
(1) Yes	79	23.4
(2) No	35	29.6
E Distance from nearest city		
(1) Below 25 km	10	28.9
26 - 50	22	21.9
51 - 100	51	24.7
101 - 150	23	34.1
151 - 200	8	21.5

Sources: (1) As for Table 3.
(2) Maps produced by Burmah-Shell Company based on Survey of India maps.

Initial Population Size: The population base of the towns in 1951 fails to account for the differentials in the magnitude of population change. The largest per cent variation in population is registered by the middle sub-group small towns with population 5,000-9,999 (Table 3).

Economic Structure: The economic structure of the town and that of the nearest city, when considered independently of each other, do not appear to constitute an important explanatory influence, except that the small towns with 'trade and transport' as their predominant economic function have recorded the lowest per cent variation. The cross-tabulation of the economic structure of the town with that of the nearest city also fails to produce coherent results, except that the proximity of 'manufacturing' city centres rather than 'service' cities appears to be associated with marked increase of population in the case of "trade and transport" towns (Table 4).

Locational Factors: Of the locational factors considered, the type of road on or by which the small town is situated seems to exert an important influence on its growth. Towns located by national highways have recorded the highest per cent increase of population. The relationship between the growth of small town and the type of the nearest road appears to be quite consistent; the better or the more important the road, the higher the per cent increase of the town population. The availability of rail track is also associated with rapid growth of the small town, though this factor is not as strong as the type of road (Table 5, A and B).

The accessibility of the nearest city appears to have exerted a negative influence on the growth of the small town. Better type of road linking the town and the city and the availability of railway facilities between the two seem to be associated with lower per cent increase of the town population. The distance of the town from the nearest city does not, however, produce consistent patterns of population change and no firm inference can be drawn about the part played by physical nearness of the city centre (Table 5, C, D and E).

The cross-tabulation of the type of road by which the town is located with the type of road linking it with the nearest city strengthens the afore-mentioned conclusion regarding the opposite directions in which the two locational factors have influenced the growth of small towns (Table 6). No firm conclusion can be drawn about the individual effects of the closeness of the city centre and the type of road link. The cross-tabulation between these two factors, however, shows that the negative influence of the link road becomes clearer as the small town moves away from the city centre. Also, the distance between the town and the

city appears to be negatively correlated with the population increase of towns which are linked with the city by a national highway (Table 7).

Conclusion

To conclude, the use of the continuous approach has shown that the small towns of Gujarat have registered positive increments in their population in the last three census decades. Further, at least for the last decade 1951-61, the small towns as a group recorded a comparable increase in their population (25.2 per cent) which was slightly higher than the corresponding increase in the case of medium size towns (22.9 per cent). This increase was also slightly higher than the natural increase computed for Gujarat state for the decade 1951-61 (22.2).[6] On the assumption that the rate of natural increase was of the same magnitude for small towns, it may be inferred that net migration was of little consequence for these small urban places.

Of the factors considered here to explain the differentials in the growth of small towns during 1951-61, the initial population base and the economic structure of the town as well as of the nearest city were found to be of little importance. The locational factors, on the other hand, emerged to exert an important influence on the growth of the small town. About the latter, one may surmise that the location of the town with respect to its surrounding areas had a positive effect on its growth, whereas the factors that determined its accessibility from the nearest city centre exerted a negative influence on its growth.

The results of this exploratory exercise concerning the small towns of Gujarat state may be of some relevance for comprehensive urban and regional planning which gives due consideration to relevant spatial and locational elements and aims at evolving a functionally well-knit community of urban and rural settlements of different sizes.

TABLE 6 : PER CENT VARIATION OF POPULATION OF SMALL TOWNS IN GUJARAT CLASSIFIED BY (A) TYPE OF ROAD BY WHICH THE TOWN IS LOCATED AND (B) TYPE OF ROAD THAT LINKS THE TOWN WITH THE NEAREST CITY—1951-61

(Figures in brackets indicate the number of small towns)

Type of Road	Type of Road Link with Nearest City				
	National Highway	State Highway	District Road	Branch Road	Total
National highway	29.3 (12)	—	135.0 (3)	—	42.8 (15)
State highway	11.5 (6)	39.4 (38)	29.9 (4)	—	25.7 (48)
District road	9.5 (9)	12.4 (12)	25.0 (12)	—	16.6 (33)
Branch road	12.0 (3)	9.1 (7)	18.2 (7)	— 0.9 (1)	12.7 (18)
Total	19.2 (30)	24.6 (57)	32.7 (26)	— 0.9 (1)	25.1 (114)

Source : As for Table 5.

TABLE 7 : PER CENT VARIATION OF POPULATION OF SMALL TOWNS IN GUJARAT CLASSIFIED BY (A) DISTANCE OF THE TOWN FROM THE NEAREST CITY AND (B) TYPE OF ROAD LINKING THE TOWN WITH THE NEAREST CITY—1951-61

(Figures in bracket indicate the number of small towns)

Distance (in km)	Type of Road Link with Nearest City				
	National Highway	State Highway	District Road	Branch Road	Total
Below 25	46.0 (3)	21.0 (5)	45.5 (1)	—0.9 (1)	28.9 (10)
26-50	30.2 (3)	19.3 (13)	24.8 (6)	—	21.9 (22)
51-100	19.1 (17)	22.3 (22)	24.8 (12)	—	22.7 (51)
101-150	0.4 (5)	37.2 (14)	91.6 (4)	—	34.1 (23)
151-200	10.1 (2)	28.8 (3)	24.3 (3)	—	21.5 (8)
Total	19.2 (30)	24.6 (57)	32.7 (26)	—0.9 (1)	25.1 (114)

Source : As for Table 5.

Notes

1 See United Nations, "Urbanisation, Development Policies and Planning", *International Social Development Review*, No 1, New York, 1968.
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Also Malcolm D Rivkin, "Area Development for National Growth: The Turkish Precedent", New York: Frederick A Praeger, 1965.

2 Philip M Hauser, (ed) "Urbanisation in Asia and the Far East", Proceedings of the Joint UN/UNESCO Seminar, Bangkok, August, 1956, Calcutta: UNESCO Research Centre, 1957, pp 105-106.
See also United Nations, ECAFE, "Report of the Asian Population Conference", held in New Delhi, December 1963, New York: 1964, p 100.

3 Kingsley Davis, "The Population of India and Pakistan", Princeton, NJ: Princeton University Press, 1951, pp 127-130.
Also K B Suri, "Towns: Size, Economic Structure and Growth", *Economic and Political Weekly*, Bombay, August 10, 1968, pp 1247-1251.

4 Asok Mitra, "Internal Migration and Urbanisation in India", Office of the Registrar General, New Delhi, 1967.

5 K B Suri, *op cit*, p 1249.

6 S P Jain, "State Growth Rates and Their Components", in "Patterns of Population Change in India 1951-61", edited by Ashish Bose, Bombay: Allied Publishers, 1967, p 25.

The Reserved Constituency

Candidates and Consequences

Satish Saberwal

Proceeding from the premise that inequalities in contemporary India are far greater than defensible, this paper assesses the Reserved Constituency for the Scheduled Castes as a mechanism for abridging these inequalities. The argument is based on field data from a Punjabi industrial town and concerns political processes in the sixties.

Due to the large package of measures of reverse discrimination favouring Harijans and the spectacular endogenic industrial growth in the town which has drawn Harijans into the roles of skilled machine worker and entrepreneur, inequalities based directly on caste are on the wane. However, wealth and power continue to be highly concentrated in high caste hands. The town's Harijan political leaders tend to trade their political base for personal gains. None among them understands the larger institutional mechanisms which underlie and renew the current inequalities, nor do any have the stamina for applying themselves to the tasks of changing the larger system so that its processes would generate effective social, economic, and political equality.

INTRODUCTION

AMONG the most significant tasks of a sociologist is to provide his society with feedback on its major social processes. The more adequate this feedback (and this includes the responsiveness of the decision-makers to the information and insights in it), the more accurate would be the social steering. Such a task would be important in slowly changing societies; it is much more so where the key institutions, the fundamental values the whole way of life are at stake, leaving the society only the choice of finding its place along a continuum whose poles are high achievement at one end and anarchy at the other.

In physical systems, the variables of interest must necessarily be specified in designing the feedback. Feedback on large social systems too must specify the variables of interest in advance, especially when the data collection has to be in hands other than those of the interpreter of data and the communicator of insights. One may consider a wide range of variables for this purpose: level of political participation, literacy rates, quality and quantity of innovations, etc. The level of social inequality is one such variable, and a particularly significant one in India. The scales and modes of social inequality in India today are very much greater than can be defended except on the grounds of either (1) an extreme and now discredited functionalism wherein whatever exists is right, or (2) protecting the interests and the privileges of the wealthy and the powerful. I do not find either of these grounds persuasive. Furthermore, we in India often claim to be building social equality into our future, for example when we speak of 'socialism'. The sociologist is not bound to accept values which may be proclaimed in the political arena; and when he is at odds with them, he has to challenge them. Where his own values are in sympathy with those being canvassed in the public political domain — as mine are concerning social and economic equality — he may in full conscience employ the latter in his appraisals of the social process. Yet the reader is entitled to due warning of the analyst's values, so the resulting 'bias' may be allowed for.

* * *

An egalitarian polity was one of the keystones of the design promulgated for the Republic of India in 1950. The founding fathers of the Republic knew then, however, that an egalitarian polity can find strength only in an egalitarian society: this the India of 1950 was not. (See Austin, 1966, especially Chapters 2 and 3.) The caste system embodied our social inequalities most conspicuously, and these inequalities had to be attacked and dissolved if we were to take the egalitarianism of our polity seriously.

In support of this purpose, the fifties saw the assembly of a substantial apparatus, including the reservation of constituencies for Scheduled Caste (SC) candidates,[2] creation of special funds to be used for SC economic advance, distribution of government lands to them, provision of scholarships in schools and colleges for SC students, reservation of governmental jobs for the SCs proportionate to their share in the overall population, passage of the Untouchability Offences Act, and various related measures.

This paper seeks to assess only one of these elements, namely, the reservation of constituencies for Scheduled Caste candidates. From the vantage point of a Punjabi industrial town, to be called Modelpur in this paper, I shall sketch the historical, social and political contexts wherein a particular constituency came to be designated as 'reserved' and was so contested in the elections of 1967 and 1969.

The statute reserves constituencies for the SCs in Parliament, the state legislatures, and the elective institutions of Panchayati Raj; but, in Punjab, the SCs find representation in other areas too, where the statute does not provide for reservation for them. Given the traditional segregation of the SC population in urban (as well as rural) areas, Municipal Committees, as in Modelpur, usually have a few Harijans elected to them, although skilful gerrymandering could probably obviate this. Furthermore, high caste leaders sometimes induct their Harijan proteges into arenas which do not provide for SC reservation, such as the Board of Directors of a Co-operative Bank. This is one element in the general strategy of building structures of broad political support.

My concern in this paper — and my data — relate to the reservation of constituencies for Parliament and the Punjab Vidhan Sabha. The candidates for these constituencies, however, often have had experience in other arenas and, therefore, as I examine their career paths and political strategies, my analysis will often stray into the various arenas which together frame the politics of Modelpur.

FIELDWORK

The field data presented in this paper are drawn from about nine months of field research in Modelpur,

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an industrial town in Punjab, whose population has grown from about 12,000 in 1931 (after moderate fluctuations in the previous half century) to about 38,000 in 1961, going by the Census. In 1969 a population of 55,000 to 60,000 was often mentioned for the town: the difference could be due to the ambiguity concerning town limits (see Saberwal, 1972) and to the growth since 1961. Though a native speaker of Punjabi, I can read or write Gurumukhi only haltingly. The Indian Institute of Advanced Study, which supported the study, provided me with a general assistant who was able to help me with Gurumukhi texts. I did all the interviews myself.

The present analysis draws upon several sorts of data. First, I interviewed eight of the candidates who contested the 1967 and 1969 elections to the Vidhan Sabha. One or two other minor candidates also appear in the results published for the constituency, but they were not mentioned to me during my fieldwork and were not interviewed. The Lok Sabha member from this area, also a Harijan, lived in Modelpur; but numerous attempts to contact him gave me less than half an hour of total contact time — and that as an observer at his meetings with others rather than as an interviewer. I did not try to interview his rivals of 1967: none of them lived in Modelpur.

My interviews sought information in the following areas:

the candidate's age,

his caste: one of the eight candidates was a Balmiki (traditionally scavengers) and the others were (Hindu) Ad Dharmis or (Sikh) Ramdasias (traditionally weavers or leatherworks),

his father's occupation,

his own career path: education, occupation, transition into politics, current income and property,

his electoral history: how selected, strategies in relation to various rivals, sources of support and opposition,

consequences of his having been a candidate for his career, and his expectations for the future.

The second major category of my data is the interviews with 58 socially mobile persons drawn about evenly from three castes: the Balmikis, the Ad Dharmi/Ramdasias, and the Ramgarhias. The last group have traditionally been carpenters and blacksmiths, the only group of the three to have been above the pollution line.[3] Three of the candidates were interviewed as mobile persons also; the others either lived outside Modelpur town or were not perceived as being mobile by their caste-mates within the town.

To contextualise the foregoing, I have supplementary observational and interview data. These include interviews with the MLA for 1962-67 (his predecessor lived, in Chandigarh and I did not try to reach him), with several high caste (HC) politicians involved in selecting the SC candidates, and other material concerning the town's history, geography, industrial growth, educational institutions, etc.

The Town

The tehsil which includes Modelpur town and carries its name was part of a princely state until its merger into PEPSU in 1948. The tehsil was an enclave, surrounded — and separated from the capital of the princely state — by British India. The town has been a substantial grain market for the tehsil for many decades. Located as it is on the principal road and rail arteries of Punjab, it began to attract large industry in the early thirties, and over the years outside entrepreneurs have established a sugar mill, a starch mill, and a textile mill here. Since the early thirties, too, local entrepreneurs have established workshops for making parts for automobiles, diesel pumps for irrigation, etc. The Muslims and the high caste Hindus were the entrepreneurs in the thirties and the forties when the scale of operations was small. I estimate that the town had only about 15 lathe workers and moulders as late as 1944; by 1969 their number had grown to about 1500, and the Ramgarhias and the Ad Dharmis have been major participants in this growth, both as entrepreneurs and as skilled workers. Now, Modelpur is a substantial industrial town.

This area has a strong tradition of sending workers to wherever opportunity is perceived. Many of my informants or members of their nuclear families had worked in Assam, Hong Kong, the Philippines, East Africa, United Kingdom or Canada. For its size the town has an extraordinary number of travel agents. Assured irrigation gives the town an affluent, 'green revolutionary' hinterland; and the wealthy farmer's bucketfuls of milk and *lassi* (buttermilk) are likely to stay cool inside a refrigerator.

Modelpur constituency for the state legislature is spread over the largely Hindu, urban Modelpur and the largely Sikh, rural areas around. My guess is that the electorate is drawn about evenly from the rural and the urban parts of the constituency.

The Social Context

I have previously examined the diverse patterns of mobility characteristic of the lower castes in Modelpur's changing social structure (Saberwal, 1972). Thus the carpenters and blacksmiths emerged from their lowly status in the village communities towards the end of the nineteenth century and building on their traditional skills and — outside the Punjab — on a seemingly casteless Sikh identity, made good in entrepreneurial roles in the engineering industry over a wide front. They also acquired a new name for themselves, Ramgarhias, and were fully accepted into the ranks of the town's high castes.

The former weavers and leatherworkers — the Julahas and the Chamars — have also been involved in mobility processes of considerable time depth, and are now generally known as Ad Dharmis. Prior to Independence, some individuals were able to raise their standard of living, or even acquire a measure of wealth, through trade on an enlarged scale in buffaloes or animal related items such as skins and bones. Others were able to enter novel occupations — police, army, 'contractoring' in the canal colonies. (The British regime appears to have taken rather more kindly to Sikhs than to the Hindus among the SCs.) There were also other kinds of universalistic settings: thus at Beas, near Amritsar, are located the headquarters of the Radha Soami Satsang, a multi-caste and syncretic congregational religious movement (Khushwant Singh, 1966, pp 125-27). Through access to this movement, in the early 1930s an Ad Dharmi from Modelpur became an apprentice to the old Patvari (keeper of land records) in the princely state — and is now a substantial dealer in real estate; another Ad Dharmi — Gur Pershad — was able to use Satsang relationships to learn lathe work in the early 1940s. During the next twenty years, as the demand for local weaving and shoemaking gave way to one for factory products, he led a strong Ad Dharmi flow into lathe work. Some of these lathe workers have become entrepreneurs on a growing scale, and my informants also included a contractor, a teacher, and two substantial farmers, apart from college students on their way into the bureaucracy.

The scavengers of yesteryear — now known as Balmikis — continue to be

strongly involved in their traditional occupation, approximately matching the level that Ad Dharmis now have in lathe work; apart from these occupations, however, the occupational differentiation among the Balmikis is as wide as that among the Ad Dharmis.

Overall, in Modelpur, the idea of *inherited* pollution is on the retreat; the emerging pattern, which gets wide support, is to relate social distance not to inherited pollution but to personal cleanliness. I shall return to this issue below.

The Political Context

Until 1962, Modelpur was a safe Congress territory. Congressman Joshi had held the constituency for several terms, and his place in the then Chief Minister Kairon's councils was noteworthy. As his political fortunes rose, he began to neglect his constituency — while harnessing the state apparatus, rumour had it, to his private ends. When the 1962 elections arrived, his support base had been weakened, and all his rivals united behind Bharadwaj, a school-teacher, trade unionist, man of generally acknowledged stature, and former Congressman contesting as an independent. Bharadwaj defeated Joshi overwhelmingly.

By 1967, the constituency had been declared as Reserved for Scheduled Castes: multiple reports suggested that Joshi had used his full weight in the party to get the constituency declared as Reserved in order to deny it to his rivals who, in the nature of things, could only be HCs. Henceforth, the candidates for the state legislature would have to be SCs even though, as we shall see, the HCs continued to control almost every lever of any political consequence.[4]

Political Culture

Let us now consider some of the norms which influence individuals' access to and stature within the political domain, the core activities in this domain, and the nature of choices therein. First of all, a politician can acquire stature in Modelpur only if he is a man of independent means. Those who do not have such private incomes, and most Harijan aspirants for political prominence would not have, are berated for "making a living out of politics". Only a few enter politics either out of altruism or for the honour of public deference. They get their rewards but indirectly: via loans from the Co-operative Bank, a permit for building a cinema, quotas for scarce commodities, etc. In other words, the politician gets his rewards as a beneficiary of the permit-licence raj.

Secondly, the politician's standing depends not on the good performance of his 'defining functions' — say, participation in law-making in the legislature — but on his 'mediatory functions' of various sorts, most often that of mediating between supplicants and administrators. Every politician with electoral ambitions spends enormous amounts of time on this. One leading figure of the area, a substantial farmer in a village three miles from Modelpur, said:

> "For a year I haven't done any work on my village land. Formerly I used to drive my own tractor. Now I only talk to my labourers morning and night. Spend all my time in town helping others."

Why is this mediatory work so important? To answer this question I have to distinguish between 'technical incompetence' which arises from low technical resources and 'status incompetence' which afflicts those who have low status in the society. Thus a young and perceptive civil servant commented to me on the inevitable differences between the treatment given by civil servants to different categories of visitors: someone wealthy would be offered a chair, someone poor would be much more likely to be asked to come another day. The common man's status incompetence is made manifest on almost any occasion requiring official attention. During my fieldwork I had to seek the intervention of district authorities on an issue of a personal nature. These authorities sent an inquiry to the local police. A constable came to my house, asking me to go to the police station along with a municipal commissioner. Later I discovered that the commissioner's job was merely to affirm (1) that I was living at the particular address and (2) that there was no complaint against me. Partly, this requirement for political intervention in this case may be related to the police being short-handed in the area. But in all manner of routine contingencies the administration appears to employ status as a substitute for its own resources and competence. And for the time and labour spent in this manner, the politician gets his reward in substantial public deference.

To sum up, the administration's technical incompetence, the masses' status incompetence, and the politicians' search for political support and public recognition stand in a mutually reinforcing relationship. So long as this syndrome persists, *the more effective the exercise of mediatory functions, the greater and more stable the level of political support.*

The foregoing explanation in terms of functional interdependence may be supplemented by considerations in causality. Hence, one may hypothesise several kinds of antecedent variables depending on one's theoretical predilections: possibly, the child-rearing patterns are such as to require frequent intervention by, say, the mother in relation to other arbitrary seeming adults; if so, a personality style requiring mediation in dealing with authority figures would develop. Whether or not this is so can be ascertained empirically. Alternatively, it may be that in childhood and adolescence one has opportunities to acquire only low levels of skills of 'social navigation', that is, unaided establishment of relationships with previously unknown persons. This again would lead to adults excessively dependent on mediators, and empirical scrutiny is again permissible. Yet again, the explanation may rest with the scale of social inequalities so that the greater the difference in social status between two persons, previously unknown to each other, the more important the mediator of intermediate status. My guess is that the last explanation would be found, on inquiry, to be the most adequate, with persons of low status being equipped with relatively poor skills in social navigation.

The functional and the causal explanations may be integrated into a rather simple paradigm. Extreme social inequalities entail severe status incompetence for the lowest strata and the latter are socialised into poor skills of social navigation. When the 'democratic' political process is introduced into such a society, with the need to mobilise support from individual voters, the political aspirants can nurse their constituents by trying to neutralise the latter's status incompetence in some measure through mediatory work of diverse sorts.[5]

The Factions

In Modelpur the mediatory functions are performed by political formations which have the general character of factions: a non-corporate group for political conflict whose members are recruited by its leader (and possibly by his followers) on diverse principles (Nicholas, 1965); the group brings diverse capabilities together and may cross political party lines. Modelpur has two principal factions, one led by Amar Singh and including persons affiliated both with the Jan Sangh and the Akali Dal (Master group) and the other composed of several groups within the Congress. Needless to say the precise contours of a faction reflect the relative standings of its key members and other elements; thus the Amar Singh faction is strongly focused on its leader — indeed it is known by his name — while the Congress faction is held together much more loosely.

For the mediatory function to be effective over a broad front, strong internal differentiation concerning the resources controlled is vital. Thus the Amar Singh faction includes at least two lawyers, several cloth merchants, on HC and one SC former candidates for the legislature, several small-scale industrialists and property owners and so on. Its leader himself controls a restaurant, brick kilns, the Co-operative Bank, the Zilla Parishad, and so forth. The Congress faction includes the local MLA, the Municipal Committee president, the chairman of the sugarcane co-operative and the market committee, the proprietors of the larger industries in the town, and it maintains strong links with the administration at various levels. Control over the public institutions is much coveted and hotly contested. The expectation that patronage distributed through them will generate electoral support appears to be realised with reasonable frequency.

Members of a faction generally support each other against others and especially against the major rival faction. For mediation they choose the lowest hierarchical level available within both the administration and the faction. Only such matters are transmitted upwards within the faction as are beyond the capacities of the lower level and are judged by the lower level as worthy of higher level attention. (The higher levels impress upon the lower levels the need to judge the issues for mediation against the likely payoff in the various political arenas.)

The internal structure of each faction is complex, somewhat fluid, and sensitive to the larger context. Thus, during 1969, Indira Gandhi took several seemingly radical steps such as bank nationalisation. The Jan Sangh opposed these but some of its Harijan members — who were also in the Amar Singh faction — supported these steps strongly. One protege of Amar Singh went further. Knowing the sources of wealth of the HC men who run the local political apparatus, he said that brick kilns, cinema houses, etc, also ought to be nationalised. This freedom goes beyond opinions and into actions as individuals pursue their personal interests.

Let me illustrate this fluidity with reference to the Amar Singh faction. For the elections to the state legislature in February 1969, the Jan Sangh and the Akali Dal had entered into an alliance. It is said that Amar Singh, himself an Akali, persuaded his party to concede this seat to the Jan Sangh. Then he got Prem Nath, a Harijan protege of his, admitted into the Jan Sangh — and Prem Nath became the Jan Sangh candidate, but his primary ties continued to be with the Amar Singh faction.

Some tension within the faction arises along the interfaces between its HC and SC members on the one hand, and between its members in the Jan Sangh, in the Akali Dal, and those outside either party on the other hand. The interfaces are cross-cutting, however, and the tension gets diffused. Most members attach only modest significance to their caste, their political party and their faction. What one stresses and what one changes are judged in terms of situational advantages. Thus, late in 1969 two prominent members of the Amar Singh faction gradually withdrew from it. One, Gur Pershad, the 1967 Independent SC candidate (see below), formally joined Jan Sangh: rumour had it that this party had gained ground in his Municipal ward, and elections to the Municipal Committee were likely to be held soon. The other, Vij, had campaigned for Gur Pershad in 1967 (in order to please Amar Singh — see below), and had been expelled from the Congress as a consequence. Now he sought readmission into that party: meanwhile Vij's relations with Amar Singh had cooled, and the Congress seemed willing not only to take back the prodigal son but even to back him for the Presidentship of the Municipal Committee; it was up for contest and had eluded Vij's grasp for many years. Gur Pershad and Vij had worked closely for several years, in the Amar Singh faction as well as in the Municipal Committee; with Vij becoming the Committee President, Gur Pershad acquired a much greater say in municipal affairs even though their parties were at loggerheads.

The Candidates

I proceed now to discuss the SC candidates who contested the elections to the state legislature in 1967 and 1969: following rather detailed sketches for the three principal contenders, I shall take brief notice of five others who were minor performers at the polls.

Mohan Lal carried the Congress banner in both the contests and was elected both times. He is in his mid-thirties and of leatherworker caste from a nearby village. He mentioned a background of great poverty. He is literate, probably in Punjabi, but did not go very far in school. In his youth he had a defective gait, but this was corrected by a bone-setter, to whom Mohan Lal then apprenticed himself. After about 2 years' work there, he had developed more skill than his teacher. Then he returned to his village and settled down to a decade of hard work with his new skill. In place of his old kaccha house, he built a pakka one. With new clean clothes, bedding, etc, he changed his style of life. He drew close to the Sarpanch by keeping the Panchayati records for him, and took the first steps in developing the skills of mediation. He would invite any government officials visiting the village to his house and would offer them hospitality. This enabled him to begin to 'help' people in getting their jobs done. In 1963, he contested and won a seat in the Gram Panchayat elections, assumed leadership of those who had been disaffected with the Sarpanch and was able to block all proposals of the Sarpanch from going through the Panchayat! Two or three years later he was elected to the Panchayat Samiti and immediately became a candidate for its chairmanship. He lost (9 to 13), but managed to establish himself as a political figure in the area. Since the constituency for the state legislature was going to be made a Reserved one, he applied for the Congress nomination.

> "During that year I fought a great many battles with the officials. They learned to pay attention to me because I am a fighter. Thus I made a great many friends, met many people."

Gur Pershad, who later contested as an independent, also applied for the Congress ticket but he was closely identified with the Amar Singh faction which had helped defeat Joshi in 1962. He was rejected in favour of Mohan Lal who then joined the Congress and began wearing khaddar.

The various groups within the Congress gave fairly complete support to Mohan Lal. Those indebted to him for recent mediatory work support him. Substantial material aid was said to

have come from the Congress Party in Rajasthan. Finally, just before polling, the supporters of one or two minor candidates were advised — by either the candidate or his key backers — to vote for Mohan Lal lest the seat go to Gur Pershad, an independent put up by Amar Singh.

Essentially the same array of forces enabled Mohan Lal to be re-elected in 1969. He has been intensely involved in the mediatory role. He summed up his orientation by saying:

> "I don't say, now the elections are are over, I'll talk to you after 5 years. Every day I fight like the election were tomorrow."

Meanwhile he has had some government land alloted to his brother. In Modelpur, politics people distinguish between the leaders and those who 'make' leaders. As we shall see below, in 1969, Mohan Lal played a key role in making Vij the President of the Municipal Committee and he appeared to be on the way to becoming a king-maker in his own right.

Gur Pershad was the only son and a favourite of his father, a mason who had settled in the Beas headquarters of the congregational religious movement, Radha Soami Satsang. Literate only in Urdu, he had been married while yet a boy, and his wife came to live with him when he was barely fourteen. Worried about Gur Pershad's livelihood, his father sought advice from the Satsang chief who had formerly been an engineer. The chief expected the demand for work on lathes to grow. After Gur Pershad failed to find training by way of his family's contacts, a failure due largely to their caste, the Satsang chief entrusted him to a Muslim follower in Lahore for training and arranged for his meals with a Brahmin follower. In two years Gur Pershad became a skilled machine operator.

Thanks to another Satsang congregationist. Gur Pershad got his first job in Modelpur in 1944. During the next fourteen years he held jobs in five different workshops, in and near Modelpur, until he was foreman in the town's oldest and largest auto-parts workshop. There he trained several dozen caste mates in lathework.

This association ended in 1958. Displeased with the previous Municipal Councillor from their ward, the caste elders put Gur Pershad up and got him elected to the Municipal Committee. Concerning his first task there —to elect a president—he faced strong conflicting pressures, and he had to defy his employer's wishes in order to act on his caste-mates' decision. His relations with his employer worsened thereafter.

With covert support from his co-workers, largely Ad Dharmi, Gur Pershad formed a co-operative to produce auto-parts. Meeting the heavy demand of an expanding market, the co-operative grew. Amar Singh was himself a Municipal councillor as well as president of the Co-operative Bank. He got Gur Pershad to be a Director of the Co-operative Bank and also gave his co-operative a recurring loan of Rs 20,000. By 1955 its annual sales touched two lakh rupees.

Ad Dharmi solidarity and its associated egalitarianism had been among the co-op's principal initial assets. The same sentiments, however, prevented anyone's salary from exceeding about Rs 225 per month. The evidence on subsequent events is ambiguous. But it is clear that Gur Pershad, though paid full time by the co-operative, spent much of his time on political activity. Rumour had it that he was also able to manage substantial payments on the side from the co-operative to himself. In any case, in 1965, Gur Pershad faced a strong revolt in the co-operative, followed by the departure of some of its best workers. Shortly thereafter Gur Pershad also quit the co-operative to start a proprietary auto-parts workshop which did well even though he was strongly involved in politics.

Gur Pershad's relations with Amar Singh had been close over the years, and in 1967 he contested the state election as the Amar Singh faction's candidate, though labelled an independent. Observers generally agreed that Amar Singh secured substantial rural support but his Akali links were a mixed blessing. Gur Pershad lost the election by the small margin of 2000 votes.

For the 1969 elections the general sentiment had turned against independent candidates, and Gur Pershad found that the Amar Singh faction would back him only if he joined the Jan Sangh. He estimated the Jan Sangh's electoral chances in the area to be slim and so stayed out of the elections. As we shall see shortly, however, the Jan Sangh-Amar Singh faction candidate did as well in 1969 as Gur Pershad had done in 1967. Later in 1969 Gur Pershad too joined the Jan Sangh — while loosening his links with the Amar Singh faction — owing to considerations of his standing in municipal politics.

With Gur Pershad unwilling to join the Jan Sangh, the Amar Singh faction looked about for a substitute for the Jan Sangh ticket in 1969. They settled on Gur Pershad's successor as the key person in the co-operative, *Prem Nath*. Prem Nath's father had been a share cropper, and Gur Pershad liked to mention that Prem Nath used to shine shoes until Gur Pershad made him learn lathe work. Prem Nath is illiterate. How he came to occupy a key role in the co-operative is unclear to me. But once there, he had control over significant resources. Perhaps most important, he had a considerable amount of time to use for his own purposes. The co-operative's telephone gave him easier access to the town's telephone owners and made his office a place where others often dropped in. It became one of the town's political dens. With Gur Pershad's departure from the co-operative, the Co-operative Bank directorship came to Prem Nath, giving Amar Singh a chance to watch him in various contexts. Then, when the 1969 mid-term elections were announced, a high caste neighbour of Prem Nath's co-operative and a secure member of the Amar Singh faction mobilised support for him within the Jan Sangh councils to make him the Jan Sangh-Akali alliance candidate.

The broad political line-up was approximately the same as in 1967. Prem Nath had active Jan Sangh support but one of the Akali groups chose to set up its own candidate as an independent. Bharadwaj, who had been the independent MLA in 1962-67, had backed a Republican Party candidate in 1967. This time he supported Prem Nath. But Vij, an important Congress leader, who had campaigned for Gur Pershad in 1967 — because he needed large Co-operative Bank funds for a Cold Storage he controlled — withheld his support this time. To campaign for a candidate carrying the Jan Sangh banner, he judged, would damage his standing with Congressmen beyond repair. Given all this, the 1967 outcome was repeated and Mohan Lal was re-elected — again by a small margin.

Let me now refer very briefly to the other SC candidates in these two elections. One had been involved in the RSS in his village in his early youth and had later worked full time in the Republican Party. In 1967 he was a candidate of a RPI splinter group with the additional support of Bharadwaj, the outgoing MLA, and the Jan Sangh. He sought the Jan Sangh ticket in 1969 again but was dropped because he was given to heavy drinking in public — even though he was well-read and very articulate. Another candidate was state president of another RPI splinter group and a militant campaigner of long standing for the Harijan cause. But on the eve of the poll he decided to ask his small Harijan following to vote for the Congress candidate. He did not contest the 1969 elections himself, campaigning instead for his party's candidates elsewhere. Another candidate in 1967, an independent, had retired from the army as a captain in the mid-fifties. Urged by his friends in the Ex-Servicemen's Association, he offered to serve the people as their MLA. But the response to his offer was cool enough to dampen his ardour in 1969.

In the 1969 elections, instead, a rebel Akali faction put up a Sikh Harijan candidate — a landowner with 40 acres — largely in order to sabotage Amar Singh's standing within the Akali Dal. Some Congress leaders campaigned actively for him in the hope of depriving the Jan Sangh-Amar Singh faction candidate of some of its likely Akali alliance vote. The other candidate this time, the lone Balmiki in this list — a trade unionist — had the support of groups within the CPI and the RPI but got few votes from outside his own small caste.

These, then, were the candidates in the Reserved constituency. While anyone may become a candidate, support from a broad-based structure — in Modelpur, one of the two major factions — is necessary if one is to be a serious candidate. Were the vote heavily fragmented, the likely winners would need only small, compact bases. It is perhaps a reflection of the social and political mobility in Modelpur that faction leaders can assemble large, diversified structures behind candidates with a wide appeal. However, the key levers in these large structures rest securely in the hands of rather affluent high caste men, reflecting the current distribution of wealth—and of the tools for producing wealth—in Modelpur. Given their backing, the candidates' own qualities seem to be immaterial. Unknown, even illiterate persons will do as candidates.

I proceed now to examine the consequences of their candidacy upon the town's socio-political system and especially upon the place of the Harijans in it.

The Consequences

In assessing the consequences for the town's social system of declaring the Modelpur legislative constituency to be reserved for SCs, we notice that this reservation was only one item in a diverse package. The introductory section noted the contents of this package on the national level. The Harijan's life chances in Modelpur were affected by yet another element which had a narrower spread. I refer here to the manifold growth during the last two decades of industrial activity in this town, a growth which drew in large numbers of Harijans—and especially Ad Dharmis—into skilled work and enabled them to move into entrepreneurial roles also. How did this package of influences affect the inequalities in Modelpur?

We note that inequalities are of several sorts—ritual purity and pollution, social distance, power, and wealth. It has often been asserted that formerly the inequalities were cumulative in the village context, individuals being high or low in all the dimensions, whereas the inequalities in each dimension are increasingly independent of those in the others. Let us consider each of these dimensions in turn.

Inequalities based on purity and pollution are clearly being abridged in Modelpur. Another analysis (Saberwal, 1972) discussed the issue at length. It is my impression that a very large number of people, possibly the town's majority, no longer accepts the idea of pollution being *inherited* in particular castes. A militant Balmiki told me that, in many high caste homes, the sweeper is offered food in the family's dishes when she has completed her work and these dishes are washed up along with the rest. The limits of who may take part in normal workaday interaction are specified in various ways. Apart from those who ignore matters of pollution completely, many would inter-dine with a sweeper after he had washed up, just after he had done his unclean work. Many others would hesitate to do so, but would offer hospitality to his or her son who had entered some other occupation; again, here, some would feel the need for getting the dishes scrubbed a second time. As an upper caste industrialist told me, you cannot withhold hospitality from an Ad Dharmi if he happens to be the local Factories Inspector. As the number of such cases grows, the ideas of inherited pollution inevitably lose their force. In any case, the traditional consensus concerning proper attitudes and behaviour on questions of pollution has long since been dissolved.

The term 'social distance' refers to patterned limitations on the intimacy of social interaction between certain social categories. Social barriers in Modelpur are numerous, arising between the large entrepreneur and his unskilled workers, the established politician of long standing and the ordinary townsman or villager, the Harijan official looking for a room to rent in a high caste neighbourhood and the owner of such premises, and between those who live in the crowded old town, with its narrow winding lanes, and those who live in the relatively open new town growing on both sides of the Grand Trunk Road. However, these barriers have no religious or ideological supports and are raised or lowered depending largely on individual calculation of gain or loss—in terms of opportunity or status—in particular contexts. If in this setting, the Harijans tend to be under-represented in the town's high status social interactions, the explanation lies in the adverse stereotypes that continue to surround them and in the relatively low levels of their control over power and wealth. The following paras will concentrate on these issues of the distribution of power and wealth.

We have seen that positions of power and of wealth are open in principle regardless of caste. Indeed reverse discrimination operates in favour of the Scheduled Castes for a certain range of positions and opportunities. In practice, however, generally the Harijans start from bases which are deficient in access to social networks, in power and in wealth, and therefore they continue to be under-represented in elite settings.

To be sure, the reservation of constituencies serves to focus public attention on a small number of SC candidates at every election, and along with the other measures intended to benefit the Harijans, this too contributes to status differentiation within the lower castes. It also contributes to a weakening of the ideas concerning their low social evaluation, their general lack of competence, and, as we have seen, their inherited pollution. However, political prominence (which includes being a serious candidate, for it signals access to important networks) tends to be only a step in a cumulative process. Other resources tend simultaneously to flow in the same direction: the man of political prominence may be nominated to the District Welfare Committee charged with allocating land and other resources to Harijans, and the committee members take good care of their close kinsmen. His mediatory

work places many people personally in his debt and they can discharge the debt by giving him preferential access to resources they may control. Furthermore, his children are rather more likely to go through high school and college and so avail of scholarships there and preferential recruitment to government jobs later. Not that political prominence is invariably the first step in the spiral of upward mobility. Rather, it is one of the various boosters available and these tend to act cumulatively.

The Ad Dharmi Member of Parliament from this constituency—formerly a school teacher—has over the years built himself a large house in a new, modern neighbourhood, acquired a substantial farm, which his sons cultivate with at least one tractor, and has a jeep. He is rude and brusque in his dealings with Harijans who seek his advice and mediation as well as with the sociologist seeking an interview. Regardless of social origin, as one acquires the resources characteristic of the middle and the upper classes, the attitudes characteristic of the new class follow close on heel.

One scarcely need add that the social space wherein a Harijan may move expands rapidly as he moves up the spiral of success. Indeed the pace at which he can rise may depend on the vigour and the skill he brings to exploring the social space and to mobilising its resources for his own purposes. We know that Harijans usually internalise strong norms which make a virtue of not venturing too far from their own neighbourhood (Gumperz, 1958, pp 679-80; Saberwal, 1972). These norms carry little weight with Modelpur's modern, successful Harijans. Achievement—whether in politics, industry, bureaucracy or whatever—brings to this small minority a strong sense of its own competence, setting it psychologically apart from the overwhelming majority of Harijans. Insofar as mediatory work is generally acknowledged to be an important part of the political leader's role, the Harijan politicians often interact with a very wide range of officials, high caste politicians and other public figures. The consequences are similar to those reported from post-independence Zambia (Elizabeth Colson, 1967). As the Blacks came to control the apparatus of power, their sense of competence grew sharply. Correspondingly, as the Whites were eased out of this apparatus, they developed a sense of impotence; needless to say, this has not happened among the high castes of Modelpur.

The case of Mohan Lal, the Congress MLA from Modelpur, is illustrative. He said that during 1968 when L S Gill was the Punjab Chief Minister (heading a minority government with Congress support in the legislature), Mohan Lal got blank sheets of paper with the Chief Minister's signature—reflecting, perhaps, the tenuous hold the latter had on his office. Seeing these sheets, the local civil servants learned to pay attention to Mohan Lal's wishes. By 1969 he had emerged as a king-maker in Modelpur's Congress. I noted earlier that Vij, an important Congress leader, had opposed Mohan Lal and support Gur Pershad, the Amar Singh faction's independent candidate, in the 1967 elections in order to secure substantial funds from the Co-operative Bank controlled by Amar Singh. The Congress had then expelled Vij. When in 1969, court orders removed the incumbent president of the Municipal Committee, his successor had to be elected from among the seven continuing Municipal Councillors, Vij among them. Three of the seven were firmly with the Congress. Vij had long aspired for the presidentship. But he was outside the Congress now, and the others outside would not all rally around him. However, his friends—including Gur Pershad—suggested to the Congressmen that he should be taken back into the Congress and made president. In securing a consensus within the Congress for this proposition, Mohan Lal played a key role even though Vij had opposed him in 1967. Later he told me:

> "We [the Congress] needed him... People come and go all the time. Now we need people to come to us".

Commenting on the outcome immediately afterwards, Vij noted how much stronger the Congress would be in Modelpur with a Congressman as President. He was ecstatic about Mohan Lal's role in the developments:

> Though he comes from a low class, he has chosen to forget the past. This shows his great soul (mahan atma).

For every Harijan politician, who feels this sense of competence, however, there are several hundred who do not. Their efforts at seeking mediation meet with indifferent responses. Thus Prem Nath, the Jan Sangh candidate at the 1969 elections, was told by his political mentors that he was sponsoring too many cases with the administration. He ought not to fritter away his party's resources in this manner. Gur Pershad, the 1967 candidate who joined the Jan Sangh in 1969, later told me that if someone brought him a problem, he sent the person on to the more active Jan Sangh leaders. If the problem was resolved, the Jan Sangh would get the credit. If not, that was too bad. By now his own electoral ambitions were in a rather low key.

Consequently, those who find the mediatory channels unresponsive — and this often happens to the poor regardless of caste—can scarcely develop feelings of positive personal competence. And their general style does bespeak a profound lack of self-assurance.

We notice, then, that a very small number of Harijans is able to harness the resources of the political arenas to acquire a measure of power and of wealth for themselves, and their sense of personal competence grows too; but my guess is that the large majority of Harijans as well as the other poor continue to find the political system unresponsive to their wants.

The Leaders: Harijan and High Caste

Let me return once more to the Harijan political leaders. We have noted that some of them do enter Modelpur's elite settings wherein key decisions concerning local politics are taken. However, they enter these settings, in large measure, as representatives of the Harijans. The Harijans, including their leaders, are generally poor, relatively uneducated, and relatively unskilled in social navigation. Consequently, Harijan leaders, even when they have access to elite settings, suffer from status ambiguity.

Let me illustrate. One day I was chatting in the Ad Dharmi co-operative's office with Hari Mitter, an important high caste member of Amar Singh's faction. Its 1967 candidate, Gur Pershad, dropped in too. As Municipal Councillor, he was concerned with the imminent election of a new president. Hari Mitter asked him, "Shall we make you president of the Municipal Committee now?" Gur Pershad was engaged in another conversation and did not reply. A little later Hari Mitter asked again, "Let me know if you want us to make you president; don't come back later asking that so-and-so be made president." Gur Pershad made no reply — and left. Hari Mitter muttered, "Blockhead (ghughu), he is a blockhead." I said, "Oh?" Hari Mitter: "Blockhead. We might make him president. But what will he do even if we make him MLA or president?"

During rather extensive interaction with me Gur Pershad often gave evidence of his belief in an intimate friendship with Vij, whom we have met before. For his own reasons, Vij had campaigned for Gur Pershad in 1967, and the latter helped prepare the ground for his becoming municipal president in 1969. The two had co-operated in the Amar Singh faction earlier, and after Vij's election, they worked closely in the Municipal Committee. In the leader's house Gur Pershad acted familiarly and would sit, shoes off, with his feet on the sofa. In an interview later, however, Vij said, "With rare exceptions, candidates from the Scheduled Castes are uneducated bastards (ullu de pathe); but they have to come. It doesn't do the Harijans generally any good. Now their privileges were to end in 1970 but are being renewed because no one will risk losing votes by opposing these." This pursuit of votes appeared to strike him as a great curse.

The evaluations given to other Harijan leaders were not any better. Early in my fieldwork when I told the tehsildar (a low level administrator) that I wished to see Mohan Lal, the MLA, he — and his two assistants — smiled with amusement and said that they would send him to my house when he came round to their office next time.

The crux of the matter is that relatively affluent high caste men occupy the society's prestigious key roles almost exclusively, and in their informal relations with each other constitute effective networks. Thanks to their prior control over the instruments of industrial production, etc, they can employ their control over the emergent public apparatus — political parties, co-operative banks, zilla parishads, etc, — to ensure that public resources would be so deployed as to advance their private ends in seemingly legitimate ways. When the Harijans seek to bend the political process in their own direction, their demands are usually on a small scale and can be interpreted relatively easily to mean that their support in the political arena is up for sale, individually and collectively.

Thus a Balmiki who used to count for much in Congress reckoning a decade ago proudly told me about his visit to Chandigarh when he needed mediation by Joshi, Modelpur's MLA until 1962. The latter said that there would be difficulties in getting the job done, but offered his visitor tea and snacks. The visitor said no, he wouldn't have anything: if what he had come to get done couldn't be done, he wouldn't take tea. The Balmiki informant recalled:

> "I asked him, 'Don't you remember when you went on hunger strike and I organised the procession and helped make your hunger strike a success? Now my work can't be done?' He arranged to get my work done. Then he offered me fare for the way back. I told him I won't take it. So he asked a man to take me in the Jeep to the bus stand, buy me a bus ticket, and put me on the bus."

By 1969 very few Harijans spoke of pursuing personal interests in the political arena in as unguarded a manner, and this gentleman had long since lost the capacity to organise a procession. The contemporary idiom was rather more coloured by an expectation of collective benefits. Referring to the likely Harijan attendance at a meeting to be addressed by a Jan Sangh minister, Gur Pershad said that he had told a Jan Sangh worker that they could get as many people as they liked; but people would come once, they might come twice, but the third time they would want to know what they get for attending these meetings. So if the Jan Sangh wanted support among the Harijans, goods had to be delivered rapidly.

Now there can be no doubt that the high caste political leaders get many times more of real resources out of the political process, *per capita*, than the Harijans—leaders or commoners. Articulate Harijans are aware of this, others suspect it vaguely. On my rounds, however, it was the high caste leaders who would make out the more cogent case regarding the Harijan tendency to demand material benefits in return for political support. Given further increments (1) in cognitive and verbal skills among the Harijans and (2) in Harijan accession to the upper reaches of the political apparatus, it is possible that the tables would be turned.

Compared to the situation say, two decades ago, the Harijans in Modelpur in 1969 had articulate spokesmen in considerable numbers and occasionally some of these leaders even took a militant line. The town's high caste leaders tended to co-opt some of these spokesmen into some of the town's elite settings, enabling them to use some of the public resources for their private ends. This, of course, tarnished their image among the Harijans. The high caste leaders were quite pleased to see this happen. In any case, Modelpur's Harijans had no leaders who understood the larger institutional mechanisms which underlay and renewed the current inequalities, nor any who had the stamina for changing the larger system so that its processes would generate effective social, economic and political equality.

Conclusion

To sum up. Harijan leaders active in Modelpur's politics can choose between — or mix in some manner — three basic options: (1) to enter into patron-client ties, usually with high caste patrons, (2) to act in reference to the solidarity of one's own caste or of Harijans at large, or (3) to act in reference to the solidarity of one's 'class' — usually the 'working class' — regardless of caste. Their choices seem to be influenced strongly by the arena(s) in which they operate. At the local or municipal level, the man from a predominantly Harijan ward has little need for high caste support and, in Modelpur, caste councils continue to have some influence on the Harijan vote; these men have to continue to respond to Harijan needs. A constituency at the state level, however, would have a large majority of high caste voters, making the candidates less dependent upon — and therefore rather less responsive to — the Harijan vote. Support from high caste faction leaders is, therefore, crucial for success at this level. However, at least in Modelpur, these candidates were relatively new in politics, and their life styles were still fairly close to the average for the Harijans. Consequently their rapport with the Harijans was generally good. The importance of high caste support is just as great for the national constituency. Besides, the MP who has represented Modelpur for well over a decade is now an affluent man. He keeps few links with the Harijans there. In widespread local judgment he continued to be a Congress candidate at elections because he gave loyal support to national Harijan leaders in the Congress, and he continued to win because of the work done by Congress MLAs in his constituency.

What effect would a discontinuation of the statutory reservation of constituencies for the Harijans have? Insofar as Muslims — another low status category — are grossly under-represented in the legislatures in the absence of statutory reservation, one may safely infer that the number of Harijan legis-

lators would decline sharply. Consequently Harijan access to the political arenas, to various elite settings, and to those who mediate with the labyrinths of government would also decline. This would make for yet greater inequalities.[6] Note should still be taken of the fact that the value of Harijan access to the channels of power is limited by the tendency of (or the compulsions for) the ordinary Harijan to overload the political process with relatively minor issues, their representatives' tendency to trade their political base for personal gain and consequently their alienation from this base, and their seemingly total incapacity to apply themselves to the tasks of re-shaping the larger society into egalitarian structures.

Notes

1 This paper is part of a larger study supported by the Indian Institute of Advanced Study, Simla. I have employed fictitious names for the town as well as for the persons discussed here.

2 Constituencies are also reserved, of course, for the Scheduled Tribes, but these are outside my experience and, therefore, outside the reach of this analysis.

3 Saberwal, 1972, presents a qualitative analysis of this block of data. A book length analysis is now in progress.

4 The Parliamentary constituency enclosing the town had been and continued to be reserved for SCs. But the Congress MP was said to 'ride' on the MLAs' campaigns and was not very active in the local politics. He will appear in my analysis only peripherally.

5 This composite paradigm accounts for the data, but it can be subjected to empirical scrutiny only via the lower level propositions.

6 Contrariwise, what effect would a continuation of such reservations have on encouraging separatism among the Harijans? My categorical answer is: none. In the present electoral system, a candidate can become a serious contender only if he can aggregate broad, multi-caste support in his cause; correspondingly, the Harijan vote itself is split between several parties: Congress, Jan Sangh, CPI, Republican Party, etc. In my earlier analysis (Saberwal, 1972) I have argued that Harijan solidarity *vis-a-vis* the high castes is correlated, in contrast, to the strength of adverse stereotypes prevailing about them; to the extent that these stereotypes dissolve and the Harijans' life chances approach those of the high castes, the threat of separatism and the need for reservations would both recede.

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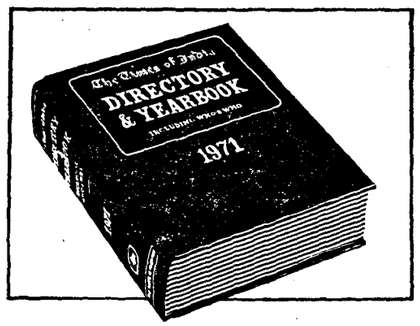
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Religion in Politics

A Comment

Imtiaz Ahmad

K SRINIVASAN's report (*Economic and Political Weekly*, September 4, 1971, pp 1926-29) of the proceedings of the seminar organised by the Indian Council of Social Science Research to discuss the trends of development in political science in India is generally accurate and objective, but in a few places he has been unable to take sufficient note of the limitations of the papers and to capture the spirit of the discussions. For instance, he has stated in respect of the paper entitled "Religion in Politics" (Srinivasan gives the title as "Religion and Politics") that the discussion on the paper was marked by a great deal of acrimonious debate, though the paper itself was unexceptionable. Since I do not feel that the paper was quite as unexceptionable as Srinivasan's assessment suggests, I should like to take the opportunity of voicing my misgivings and criticisms about the paper and highlighting some of its more exceptionable aspects. I should like to add, however, that these comments are motivated by a desire to work toward a clarification and objective analysis of the issues involved in the study of this important subject, and it is not my intention merely to criticise the author in any way. I hope that this discussion will contribute toward the emergence of a more objective and balanced approach towards the study and analysis of the role of religion in politics in India.

Hunter Thesis

Srinivasan mentions two features in favour of his assessment that the paper is unexceptionable. These are (a) that the author argued that power was a central issue that motivated the religious elite to enter into politics, and (b) that he had succeeded in laying to rest the Hunter thesis that Muslims did not take advantage of educational opportunities in British India. Srinivasan rightly insists that the Hunter thesis has been worked to great detail in historical writings, and it would surely be a matter of credit for someone to dismantle the objective historical validity of such a widely accepted point of view. Nevertheless, the author is not the first to question the thesis or to show that power was central to the concerns of the religious elites. Indeed, both these arguments have been sufficiently convincingly argued out by some earlier writers, notably Anil Seal[1] and Paul Brass.[2] On the basis of a careful and systematic examination of the political arithmetic of the presidencies, Seal had shown in his book published more than three years ago that the idea of the social backwardness of Muslims throughout India was a myth popularised by W W Hunter[3] on the basis of his limited study of East Bengal Muslims. He showed that Muslims had done well elsewhere in the country, especially in Uttar Pradesh and Bihar, and occasionally their performance in the spheres of education and employment had been better than that of the Hindus. "To state", argued Seal, "that Muslims were backward throughout India is meaningless; indeed over the whole country, it would be as hard to find a generally accepted ranking of religious communities as it would be to find a generally accepted ranking of Hindu castes."[4] Seal also showed that the social backwardness of Muslims in certain areas, such as Bengal and Maharashtra, was not a consequence of religious prejudice as has been commonly assumed, but it was rather a function of their social and economic position in the regional structure.[5] It is clear, then, that in attributing the demolition of the Hunter thesis to the author of the paper on religion in politics, Srinivasan is giving credit where it is not due.

Let us now turn to the paper itself. It is divided into five separate sections, each section being devoted to a consideration of a particular theme or subject. The first section attempts to identify the role of religion in politics and to examine the manifestations of the interaction between religion and state in India and elsewhere. Beginning with a brief historical discussion of the traditional subordination of the state by religion and religious leaders in the early phases of its history in the West, the author goes on to argue that "no major jurisdictional dispute existed between the state and the various religious communities in India; on the contrary the latter sought the aid of the state to reform and regulate certain aspects of religious life itself". The analysis of the role of religion in politics in India can therefore be reduced to the following three propositions, according to the author: (a) to establish the supremacy of the religious over the political domain, or to preserve the domain of religion over a given sphere of life considered important for the preservation of the community, (b) to reform religious practices through political action, and (c) to secure a share in political power for religious communities, using religion as an instrument for the consolidation of the religious communities themselves.

Dialectical, Not Dichotomous

The first section is certainly the best part of the paper and maintains a sufficiently high level of objectivity throughout. The only debatable point made by the author in the whole section is his assertion that "the religious and the political are two distinct spheres in modern societies.... One of the major themes of history is the movement of societies from the predominating influence of religion to that of the state...." Some one familiar with the sectarian riots of the 1930s in the USA and the Protestant-Catholic tensions in northern Ireland today is likely to be tempted to question the objective historical validity of such a contention. Moreover, over the years an impressive body of sociological evidence has piled up which convincingly shows that the relationship between religion and politics is indeed not all that distant as was earlier assumed.[6] On the contrary, religion remains a significant aspect of the human condition even in modern societies, and its influence overflows into the political sphere as well. Perhaps, lacking in the modern societies is the disruptive role of religion so characteristic of Indian society. It is, nevertheless, one thing to claim that the disruptive role of religion has disappeared from politics in modern societies, and quite another to argue that religion and politics are discrete and independent spheres of life in those societies. Unfortunately, this distinction is not maintained throughout the section, but this limitation issues from the author's conception of the link between religion and politics in dichotomous rather than dialectic terms. It need not be discussed here in any detail.

The second section of the paper traces the interaction of religion and politics in recent Indian political history, especially in the context of the emergence of Indian nationalism. Start-

ing with an enumeration of the explanations which have been traditionally put forward by historical writings to account for the rise of religious politics in the nineteenth century, the analysis moves on to a consideration of the form and character of Muslim political parties. One of the somewhat curious features of this section is that the author shifts his attention almost completely from a discussion of the role of religion and politics generally to only one aspect of that broad question, namely, the dynamics and character of Muslim communalism. The use of religious symbolisms by early nationalists,[7] the religious undercurrents of Gandhi's historic fast at Poona,[8] the political activities of the Arya Samaj and the Singh Sabhas in the Punjab,[9] and the hostility and opposition expressed by some leaders toward the missionaries and the gradual conversion of lower caste Hindus to Christianity[10] are not discussed anywhere in this section or the subsequent part of the paper. Nor is there any attempt to discuss the politics of the Sikhs, Christians, and the Parsis as religious communities.

Hindu Communalism

The author offers the following justification for limiting his attention almost exclusively to Muslim communal politics at the cost of a more comprehensive view of the place of religion in Indian politics in the nineteenth century. "Much of the literature we have considered in Section II refers to the communal parties of the Muslims; even studies of communal politics in general nevertheless concentrate upon the phenomenon of Muslim communalism. This is understandable because in the pre-Independence period politics was dominated by the claims of nationalism and the counter-claims of Muslim communalism. *Hindu communal politics was never vigorous and commanded little political support*" (emphasis added). The justification is questionable on several grounds and it betrays a certain failure to recognise and to come to grips with the complexity in the character and nature of political sentiments prevalent throughout the nineteenth and early twentieth century. For example, the author suggests that "... in the pre-Independence period politics was dominated by the claims of nationalism and counter-claims of Muslim communalism. Yet he does not analyse the content and character of national consciousness at different stages before its final success in the independence of the country, though it is widely recognised today that national consciousness in the country passed through different phases and it assumed several different patterns as the highly differentiated social strata of the Indian society and her different sub-cultures were drawn into the orbit of the national struggle. [11]

One of the characteristics of multi-ethnic and plural societies is that the communalism of the politically dominant communities in them quite often finds a great deal of its expression through nationalism and patriotic postures, while the minorities have to build their separatist structures of sentiment in opposition to the dominant communities. For example, this is the case with white racism in the United States,[12] Protestant sectarianism in Northern Ireland,[13] and Muslim communalism in relation to the Chinese in Malaya.[14] It also seems to have been the case with the religious sentiments and feelings of Hindus in the case of India. While the political sentiments and feelings of the Muslims, Sikhs, Christians and Scheduled Castes in the Indian subcontinent found their expression through their separatist movements, the political tendencies on the Hindu side were subsumed under the national movement to a considerable extent.[15] Thus it is that the question of the place of religion and communalism in the national movement upto Independence is forced upon us, and the author would have done well to analyse it objectively. It is true, as indeed he points out, that studies of communalism in general concentrate upon the phenomenon of Muslim communalism. Nevertheless, the author has systematically questioned prevalent ideas on other aspects and deviated from traditional lines of inquiry. Why a sudden hesitation to pursue a fruitful line of inquiry on this question?

Development of Nationalism

Perhaps we can graphically realise the Hindu undertones of nationalism if we were to assume that the events have not developed as they have. "Let us suppose", as Louis Dumont has suggested rightly, "that at an early stage, led by the far-sighted leaders, Hindus and Muslims have decided to subordinate everything to their necessary union against British domination, to drop their religious differences and establish in a brotherly spirit a purely secular nationalist platform on the basis of what they have in common and what they desire in common, i e, to reform the society according to modern principles and develop the economy for the welfare and freedom of all Let us further suppose that in course of time this policy is faithfully followed and has taken roots. Reforms have developed, Muslims and Hindus freely intermarry, untouchability is only a memory, religion having changed and become a purely personal affair; the colonial power has not been able to withdraw for long the benefits of industrialisation; perhaps Independence has not yet been attained, but it is well on the way. There have been no cow-protecting societies, no satyagraha, the forms of the movement have been the ordinary forms of political agitation and national demands in the West, not excluding terrorism and some military operations."[16]

Critical Point

Of course, the development of national consciousness did not follow this course. On the contrary, the ideological basis of the national movement from its very inception was encompassed within a reaffirmation of traditional Hindu values on a new level.[17] For one thing, the concept of nationalism was itself improvised through the use of certain Hindu deities, such as Durga, Lakshmi and Saraswati. Secondly, several of the supposedly purely secular and nationalist leaders mobilised the collective emotions of their religious group, that is, they had to appeal to religion in the name of the nation-to-come.[18] A critical point in this connection was when Tilak overpowered Ranade, when, that is, instead of creating an Indian nation through reforms, the aim of the nationalist struggle was converted to that of building up with every available weapon an uncompromising opposition to the foreigners. Perhaps the tendency represented by Tilak cannot be rigorously called a communalism, insofar as it was directed against the British, but it necessarily bred communalism in the simultaneously antagonised Muslim partner. Furthermore, "insofar as the establishment of a nationalised ideology required from traditional societies a fundamental change in the system of values, the policy of Tilak, if supposed purely nationalist in its aims, was self-defeating, for the means were to determine the end-result irrespective of the intentions. On the same supposition, the apprentice-sorcerer had raised a flood that his descendants could not stop, he had sowed the seed of the blood harvest of 1947".[19]

The organised expression of nationalist sentiments in the country is considered to be the Indian National Congress, and it also claimed a monopoly,

as a purely national organisation, of the representation of all sections and categories of Indians. Nevertheless, a strange dichotomy characterises the whole organisation. On the level of ideas, the Congress certainly appears as a purely national organisation. Moreover, in the whole history of the movement there is no trace of communalism proper. "Quite to the contrary, the dominant tendency has been to refuse to take into consideration on the political level the religious distinctions found in the Indian society".[20] However, as one moves from the level of ideas and ideology to the level of facts, the Congress appears to be characterised by two conflicting tendencies. On the one hand, a group of leaders in the tradition of the founding fathers of the Indian National Congress sought to create a broad-based secular nationalism in India and tried to exalt Hindu-Muslim unity at the national level by attempting to define nationalism in territorial and economic terms and viewing the national movement as a common and hard struggle against the British.[21] On the other hand, a second class of leaders whose opposition to recognise the significance of the religious distinctions appears as mere political modernism actually displayed a strong tendency to identify in the first place the Indian nation with the dominant high-caste Hindus.

Perhaps the author of the paper would have done well to specify what he means when he claims that in the pre-Independence period politics was dominated by the claims of nationalism and counter-claims of Muslim communalism. Does he mean by it the political tendencies represented by Dadabhai Naoroji, Gokhale and Nehru? Or he means the entire Congress movement as represented by leaders so different in their social backgrounds, political ideologies and social outlooks as Bankim Chandra Chatterjee, B G Tilak, Lala Lajpat Rai, Sardar Patel, and Savarkar (the author describes Savarkar as a nationalist at several points) on the one hand and G K Gokhale and Nehru on the other? In the absence of a clarification, the reader is not to blame if he concludes that the defining principle employed by the author is that nationalism refers to the political sentiments and tendencies of the most preponderant section of the population no matter how virulently communal they are in their intent and end-result. Or else, he would have tried to examine the affinity of the views of at least some of the Hindu leaders of the Congress to that of the Hindu Mahasabha and other communal organisations, as indeed he does so ably in the case of nationalist Muslims. If the political tendencies so widely different as those of Tilak, Savarkar and Nehru are indeed considered as nationalist, then Hindu 'nationalism' and Muslim 'communalism' would appear as complementary phenomena, in the sense that the attitudes of the majority would determine in some measure those of the minorities, "the more so as the majority could rely on the numbers to solve in practice certain questions, while the minority could not and had to be articulate on the same subjects".[22] Clearly, there could be no place for Muslims in a patriotism whose images were the Hindu gods and goddesses, and such a 'patriotism' was obviously not destined to make for the union between Hindus and Muslims.

Politics at Regional Level

The author also argues that "the expression of Hindu religious attitudes in politics came through the outlook of individual political leaders", and that it had no organisational base in the political sphere. Firstly, of course, this would seem to be understandable in view of the fact that a great deal of Hindu religious sentiment found its expression through nationalism and the Congress provided some organisational base for Hindu communalists.[23] Secondly, there may have been no vigour in Hindu communal politics at the all-India level and Hindu communalist forces may have lacked an all-India organisational base, but there certainly was a considerable organised expression of Hindu religious attitudes in politics at regional levels. Perhaps, the author has forgotten the campaigns of mutual recrimination which started off with the publication of *Rangila Rasool* under the auspices of the Arya Samaj in the Punjab, and the organised efforts of the *Shuddhi* sabhas to protect Hinduism. N Gerald Barrier has recently published the results of his research on communalism in the Punjab, and his analysis provides conclusive evidence of the level of organisation attained by the Hindus, as also by Muslims and Sikhs, in that province. "A striking characteristic of the newly educated Punjabis", writes Barrier, "was their tendency to identify with a religious community rather than with the Western-educated class as a whole. Hindus, Sikhs, and Muslims responded to a number of diverse pressures after the annexation by organising and joining communal associations. Hindus freely affiliated with the Arya Samaj, a revivalist movement stressing social reform and education; Muslims formed societies or anjumans which sponsored cultural activities and social improvement projects, and Sikhs belonged to the Singh Sabhas which denounced apostasy and championed Punjabi as an administrative language. Such patterns of participation reflected the degree of communal identity already prevalent but membership in the associations reinforced that identification .... Borrowing agitational techniques from the West, Aryas founded newspapers, popularised street preachings, sent missionaries to the rural areas, and attacked Muslims with a flood of literature and posters."[24] Elsewhere Barrier further notes, "The Hindu Sabhas moved into the political arena and displaced the district associations as spokesmen for Punjabi Hindus. The local Congress branches had been nominally secular, although their leaders and members were generally Hindu. In their place emerged Hindu Sabhas, avowedly communal organisations determined to protect Hinduism at any cost. By the summer of 1908 each district had a Hindu Sabha affiliated with the Punjab Hindu Sabha in Lahore .... Aryas led the new Sabhas. Having abandoned the Congress, the Aryas threw themselves into the communal associations and dominated the Pan-Hindu political movement by the time the All-India Hindu Sabha was formed in 1909."[25] I presume that all this presupposes a level of organisation of Hindu attitudes in politics. Or, can it be still argued that Hindu communalism lacked an organisational base in politics?

After the third section the discussion turns to developments since Independence and the role of religion in politics in contemporary India. The author examines the issues raised by the creation of a plural society under the constitution of new India, and the processes of adjustment which have been forced upon the Muslims as a result of Indian Constitutional pluralism. Once again, the author's focus of attention is confined to Muslims; the emergence of Sikh separatism, the role of the Jan Sangh, and the serious opposition to the missionaries and to the policy of offering concessions to tribals after their conversion into non-Hindu groups are neither examined nor mentioned as areas for future research. The author makes a series of observations regarding the political behaviour of Muslims whose empirical validity is open to question. Rather than discussing each section separately, in the remaining part of these comments, I shall take up

a few of these observations and try to examine their validity.

Reform of Religious Laws

Examining the question relating to the reform of religious laws and practices through State legislative action in contemporary India, the author asserts that "the State-initiated reform of the Hindu law met with little opposition, while the personal law of the Muslims has aroused a great deal of controversy". It is, no doubt, true that there is a great deal of opposition among Muslims against the proposal for reform of Muslim personal law, and the debate on whether reform should be undertaken continues even though enlightened opinion would agree that some reforms are urgently needed. As a matter of fact, the opposition to the initial suggestion for reform was so strong that the Law Ministry had had to withdraw its proposal pending the emergence of a demand for reform from the community itself. Nevertheless, the author's statement that *"the state-initiated reform of the Hindu personal law met with little opposition"* is historically false and does not correspond to the actual facts. Nehru had hoped to pass the Hindu Code Bill in a single session of the Constituent Assembly. It took him nearly six years to pass the two important measures giving Hindu women equal rights with men in inheritance, succession and holding of the property, establishing monogamy and providing for divorce. Moreover, the measures were processed piecemeal rather than as a single comprehensive enactment. As Percival Spear has rightly remarked, "Nehru regarded these reforms as an essential part of his liberal secular state and his sincerity is shown by the persistence of his struggle. That he had to struggle at all shows the strength of the covert opposition based on traditional feeling."[26]

Perhaps the whole discussion of the opposition to the reform of personal law among Muslims would have gained in perspective if the author had tried to examine it in the light of two general questions, (a) the politicisation of the whole question of reform of Muslim personal law and (b) the government's reluctance to go ahead with proposed reforms despite opposition from Muslims. Of course, political undercurrents of public attitudes for and against reform require systematic exploration, but it is possible to make some tentative observations. For example, the opposition of a large body of Muslims to interference with their personal laws seems to be based on the fact that they have come to view these laws as a basis of their self-identity as a separate community and are opposed to changes on the ground that they think that proposed changes will destroy their sense of community. On the contrary, the advocates of change are clearly divided as to their motives for pressing for these reforms. On the one hand, some liberal and secular minded persons consider these changes essential not only to the modernisation of Muslims, but the modernisation and secularisation of the whole society and its legal processes. They are therefore keen to promote these changes. On the other hand, others are in favour of changes because they see these laws as having the same significance as do the Muslims and would like to see reforms promoted as a step toward the demolition of the community's self-identity. Clearly, the Jan Sangh's strong advocacy of the reform of Muslim personal law seems to arise from such a perspective. This class of opinion is reinforced by the Muslim resistance to reform and in turn reinforces their opposition. In other words, the whole question has become highly politicised and any attempt to promote changes has been caught in political controversies, though there could be hardly any doubt that changes in Muslim personal law are urgently needed in keeping with the principles embodied in the Indian Constitution.

Equally fruitful would have been to consider why the Indian government has so far hesitated to promote changes in Muslim personal law, especially when such changes were introduced in the laws of Hindus soon after Independence despite serious and stiff opposition from several quarters. No doubt, opposition to reform of Muslim personal law is considerable, perhaps one could say greater than was the case with the Hindus, but there is a small minority of Muslims which not only favours such reforms but has even advocated it openly in national dailies and secular forums, the only organised avenues of expression open to it. If the government has been reluctant to undertake reform despite the support of this small but relevant minority, the conclusion is obviously that the government's reluctance has been determined by considerations of political expediency, and it has felt shy of promoting reforms because it suspects that such a move would cost it the political support of the community Nevertheless, the long-term implications of this reluctance can be sad for the community as well as the country.

A second statement made by the author in his paper relates to the trends of Muslim voting in elections. While discussing the question of the role of religion in voting behaviour, the author argues that "communal consciousness was a strong element in Muslim voting behaviour and the political parties had been unable to eliminate it". Clearly, this conclusion is a little partial and fails to take into account the situational factors which are likely to have some influence on the voting behaviour of communities in a particular constituency. For one thing, the available evidence suggests that political parties often seek to mobilise whole communities in favour of particular candidates and the process of elections serves to reinforce and accentuate communal consciousness rather than eliminate it. Secondly, the consolidation of whole communities in favour of particular candidates or political parties is not an entirely independent phenomenon; it depends upon the nature of the electoral contest, the composition of the population and the issues raised by different parties at the time of election.[28] Lastly, such communal consciousness as the author speaks of is not characteristic of Muslim voters alone; it seems also to be a characteristic of Hindu as well as Sikh, Christian and other voters in certain circumstances and is clearly reflected in electoral statistics.

Performance of Muslim Candidates

Presented in the Table is the performance of Muslim candidates put up by the Congress for election to the Legislative Assembly in Uttar Pradesh in 1967 and 1969 in relation to the relative performance of other parties. It is seen from the Table that in 1967, the Congress put up 41 Muslim candidates for election in the whole state. Out of them 19 were elected and the remaining lost the election. Nineteen of the defeated candidates were placed second in terms of total votes polled by them. When the performance of the Muslim elected candidates (and those that lost the election without getting the second place) is considered in relation to the position of other parties and their candidates, it is seen that the Jan Sangh seems to do well throughout as a runner-up. The Jan Sangh also stands a better chance of winning the election from constituencies where Muslim candidates are fielded by the Congress. If it is borne in mind that until the recent Parliamentary elections, the Congress usually put up Muslim candidates from constituencies having at least twenty per cent of Muslim voters, it would appear (a) that when a Muslim candidate is put up by the Congress or some other important party, there is a clear-cut identification between it and Muslim voters on the one hand and the Jan Sangh and Hindu voters on the other,[29] and (b) that both Muslims and Hindus tend to vote *en bloc* and are communally concentrated in favour of particular candidates. It is, therefore, obvious that the electoral behaviour of any one particular community should be seen against the background of the total electoral situation. Any generalisation about the voting behaviour of any one particular community that does not take the total picture into account is likely to distort the realities of the Indian electoral processes.

TABLE: PERFORMANCE OF OTHER POLITICAL PARTY CANDIDATES IN RELATION TO THE CONGRESS MUSLIM CANDIDATES IN UTTAR PRADESH, 1967-1969

Year	Muslim Congress Candidates			Parties Placed Second when Congress Muslim Candidates Were Elected or Ranked Third and Below in the Election					Parties Elected when Congress Muslim Candidates Ranked Second or Below					
	Elected	Placed Second	Below* Second	BJS	SSP	PSP	BKD	IND	BJS	SSP	CPI	PSP	BKD	IND
1967	19	19	3	10	3(1)**	1	1	3	12	2(1)	1	1	—	4
1969	13	25	4	6	2	1	5(1)	1(1)	10	3	—	—	10(4)	2

* Candidates placed below the second level have been counted in both columns.

** Figures in brackets under other parties show Muslim candidates fielded and elected or placed second.

Islamisation and Sanskritisation

Toward the end of the paper the author concludes that "the few empirical studies on Muslim society done in recent years show that what is taking place is increasing Islamisation rather than modernisation, and that community solidarity is being emphasised...". Perhaps the point about increasing Islamisation is sociologically correct, but once again the author has presented a partial picture which does damage to the empirical reality. Studies of social change in contemporary India generally show that the post-Independence period has seen an increase in the pace of Sanskritisation as well. For example, Srinivas noted some years ago how the process of social change in modern India was characterised by increasing Sanskritisation, and this Sanskritisation was paradoxically aided by the apparently conflicting process of Westernisation.[30] More recently, Jyotirmoyee Sharma and others have also provided evidence of greater Sanskritisation in contemporary India.[31] Discussing the emergence of Puja Associations in West Bengal, Sharma writes, "In the Indian Hindu society of today voluntary associations form for the purpose of sponsoring annual religious ceremonies or pujas. These associations are organised by young men who collect funds from their neighbours and friends, instal images for worship in temporary shelters on open land on the ceremonial days, and employ priests to perform religious rituals.... These associations devoted to religious ceremonies have proliferated since India gained Independence. They seem to exemplify the changes that have come into Hindu society with the assurance of the preservation of the traditional culture by a new government. They also indicate the greater awareness of the larger community...."[32]

If Islamisation is not the only process that is taking place on an increased scale in modern India, the author should have said that Islamisation is only one of the manifestations of the greater self-awareness which has come to characterise the religious communities in Indian society today. I say should, because the implication of the formulation is likely to be different according to how it is presented. If it is argued that Islamisation is a typical process that is confined to Muslims and the rest of the society is already well on its way toward modernisation, then the question that requires investigation would be the ethos of the Muslim community that promote such self-conscious assertion of its identity as Islamisation entails. If, on the other hand, it is argued that Sanskritisation and Islamisation are occurring simultaneously in Indian society today, then attention would have to be directed toward what it is in the nature of the contemporary effort toward the creation of pluralist ethos that each religious community is undertaking a self-conscious creation of its cultural identity, and the consequences of the interaction between Islamisation and Sanskritisation for Indian society and culture and the creation of a secular society.

There are several other formulations in the paper which are similarly questionable on historical and empirical grounds, but it is not necessary to examine all of them in detail. It is clear that throughout his paper the author has confined his attention somewhat narrowly to developments on the Muslim side, consistently understated the communalism and religious self-consciousness that has characterised the Hindus as a religious community, and occasionally presented a partial picture of the nature of social changes and political developments in Indian society. I suspect that these limitations of the paper are not directly due to any personal equation factor, but are rather a consequence of the overall approach of the author toward the study of the phenomenon of religion in politics in Indian history. He has tended to view Muslims as a discrete social group which can be understood in isolation from the rest of the society rather than consider the whole of the Indian society as a single social field. This leads him to concentrate rather exclusively upon Muslims, their role in politics, and the social processes that are taking place among them to the exclusion of other religious communities.

Fruitful Approach

At the beginning of his paper, the author makes a general point which offers a fruitful approach to the study of the role of religion in politics in India. Quoting Ambedkar, he emphasises the lasting heterogeneity of the Hindus and Muslims as religious communities and goes on to show that "the antagonism between Hindus and Muslims was spiritual in character. It was formed by causes which take their origin in historical, religious, cultural and social antipathy...." If this is indeed so, and I think it is, then objective scholarship would require that Hindus and Muslims (and I should say other religious communities as well) should be seen as constituting a single social

field, and analysis should concentrate on the social and political processes among them in constant interaction.[33] In other words, the analyst should bear a comparative perspective constantly in mind and see developments in any one community in relation to other religious communities. Unfortunately, this perspective, while postulated implicitly in the beginning of the paper, is sadly abandoned and the analysis lapses into a kind of parochialism, though certainly not particularism.

The Indian Council of Social Science Research proposes to publish the papers which were presented and discussed at the seminar. The Council is a national organisation, and anything that is published under its name is likely to carry a tremendous stamp of authority. For this reason, it is imperative that it should conform to the highest standards of objectivity and academic scholarship. If what carries its stamp does not conform to the highest standards of scholarship and objectivity, the credibility of the Council is likely to suffer seriously. So also would the larger interests of science and scholarship.

Notes

1 Anil Seal, "The Emergence of Indian Nationalism", Cambridge, 1968.

2 Paul Brass, "Muslim Separatism", *Economic and Political Weekly*, Annual Number, 1969.

3 W W Hunter, "The Indian Musalmans", London, 1876.

4 *Op cit*, p 300.

5 *Ibid*, pp 300-302.

6 See, for instance, Seymour M Lipset, "Religion and Politics in the American Past and Present", in Robert Lee and Martin E Marty (ed) "Religion and Social Conflict", New York, 1964, pp 69-126; Lloyd I Rudolph and S H Rudolph, "The Modernity of Tradition", Chicago, 1966, pp 1-10; John Cogley (ed), "Religion in America", New York, 1961; R A Billington, "The Protestant Crusade", New York, 1952; B Ringer and C Glock, "The Political Role of the Church as Defined by its Parishioners", *Public Opinion Quarterly*, 18, 1954-55, pp 337-47; Philip Converse, "Religion and Politics: The 1960 Elections", Unpublished paper, Survey Research Centre, University of Michigan, 1962.

7 For this, see L Dumont, "Nationalism and Communalism", *Contributions to Indian Sociology*, No 7, 1964; Romila Thapar, "Ancient Indian Historiography", Paper presented to the South Asia Seminar, at the University of Chicago, Spring 1968; I Ahmad, "Secularism and Communalism", *Economic and Political Weekly*, Special Number, July 1969; A K Saran, "The Ideology of the Indian National Movement", Paper presented at the Seminar on Secularism, Batala, 1971.

8 For this, see K M Pannikar, "Foundations of New India", London, 1963; L Dumont, *op cit*, pp 63-64.

9 K W Jones, "The Arya Samaj in the Punjab: A Study of Social Reform and Religious Revivalism", 1877-1902, PhD Thesis, University of California, Berkeley, 1966.

10 For this, see J A Beaglehole, "The Indian Christians: A Study of a Minority", *Modern Asian Studies* 1(1), 1967.

11 See I Ahmad, "Changing Patterns of Indian Nationalism", *Secular Democracy*, Annual Number, 1971; D Rothermund, "Phases of Indian Nationalism and Other Essays", Bombay, 1971.

12 Ronald Segal, "The Race War", New York, 1969; E Eric Lincoln, "Colour and Group Identity in the United States", *Daedalus*, Spring 1967.

13 See the numerous essays published during the last year on the subject in *Time*, *Newsweek*, and *Encounter*.

14 See Q C Hon, "The Chinese in Malaya", Kuala Lumpur, University of Malaya, *Historical Society Journal* 4(1965-66), 78-82; S S Tin, "Citizenship, Malay Rights and Chinese Education", Kuala Lumpur, 1965, and S S Tin, "Communal Relations in Malaya", 1965.

15 For this see L Dumont, *op cit*, pp 59-62.

16 *Ibid*, p 59.

17 See K G Gangadharan, "Sociology of Revivalism", New Delhi, 1971; L Dumont, *op cit*, pp 61-62; Nirad C Chaudhuri, "Autobiography of an Unknown Indian", New York, 1952, pp 405-409.

18 Dumont, *op cit*, p 62.

19 *Ibid*.

20 *Ibid*, p 64.

21 See Ahmad, *op cit*; L Dumont, *op cit*, pp 62-63.

22 *Ibid*, p 61.

23 See Gangadharan, *op cit*; Chaudhuri, *op cit*, 206-209; Dumont, *op cit*, 59-61.

24 N G Barrier, "The Punjab Government and Communal Politics, 1870-1908", *Journal of Asian Studies* 27(3), 1968, p 528.

25 N G Barrier, "The Arya Samaj and Congress Politics in the Punjab, 1894-1908", *Journal of Asian Studies* 26(3), 1967, p 379.

26 Percival Spear, "Nehru", *Modern Asian Studies* 1(1), 1967, p 16. Also see Michael Brecher, "Nehru — A Political Biography", London, 1959. The author has not cited any documentary evidence in favour of his claim that there was little opposition to the reform of Hindu Personal Law. Apart from the Constituent Assembly Debates which give an entirely different picture, evidence to the contrary is overwhelming.

27 This is, of course, reflected by the manner in which candidates are elected. For further elaboration of this point, see the four forthcoming articles based on the study of "Minority Strategies in Electoral Politics" carried out by me under the auspices of the ICSSR.

28 See I Ahmad, "General Elections of 1967 in a Rural Constituency", *Economic and Political Weekly*, September 4, 1967; and my forthcoming paper "Situation and Context in Community Voting".

29 Perhaps this led the Congress party to put up non-Muslim candidates from all constituencies having twenty per cent or more Muslims in the population or leave them uncontested in the recent election. At the recent election, Muslim candidates were put up generally from constituencies having ten per cent or less Muslim voters.

30 M N Srinivas, "Social Change in Modern India", Berkeley, 1966.

31 Perhaps, the two forms of religious activity which have received renewed stimulus in recent years are reconstruction of temples and public performance of private rituals. For one thing, new temples which were until a few years ago old and dilapidated structures have suddenly acquired new lands, gained in prominence, and emerged as architectural specimen. The phenomenon is particularly noticeable in Delhi, although I am sure that it is also found elsewhere. The reconstruction and expansion of these temples has also been accompanied by an increase in the number of devotees at the temple.

Similarly there has been an increase in the public performance of private or family rituals. Residents of Delhi (unfortunately, I do not know about it elsewhere) particularly are familiar with the large-scale use of microphones for ritual purposes current today, and newspapers have frequently commented on it. Even the author, I am sure, has occasionally found it difficult to get sleep at night, in the face of persistent blasting of *Jagratha* hymns, kirtans, and bhajans over the microphone in his locality. The phenomenon is fairly widespread.

32 J Sharma, "Puja Associations in West Bengal", *Journal of Asian Studies* 28(3), 1969, p 579.

33 This is sadly lacking in most studies on this subject. Peter Worsley has pointed out the lengths to which parochialism may lead, and has suggested that a more fruitful approach for scholars would be to consider interacting groups as a single social field instead of as discrete groups. "The Trumpet Shall Sound" (London, 1957), pp 259, 275.

FROM THE CHAIR

The Associated Cement Companies Limited

Statement of the Chairman, Mr N A Palkhivala

The following is the Statement issued to shareholders by Mr N A Palkhivala, Chairman, The Associated Cement Companies Limited, on the Company's working for the year ended 31st July 1971. The 35th Annual General Meeting of the Company was held on Thursday, January 6, 1972 at 4.00 p m at the Birla Matushri Sabhagar, 19 Marine Lines, Bombay 20.

THE splendid victory has been won. The Indian fighting forces have covered themselves with glory. The birth of Bangla Desh has been accompanied by the death of the old balance of power between India and Pakistan. The spirit of the nation has been charged with a new zest, a new confidence, in the unfolding future. The Prime Minister's memorable leadership made it our finest hour.

The great lesson of the war is that this country is capable of meeting any challenge when the 550 millions are welded together as one nation, and when the Government and the governed have identity of aims, act in concert and pool their energies and resources together. This lesson should remain engraved as with a sunbeam on our minds.

More Implacable Enemy

When the euphoria has died out, the realisation will dawn on us that poverty is a more implacable enemy than Pakistan and that whereas a 15-day war sufficed to vanquish the latter, a 15-year intensive struggle would hardly suffice to overpower the other ogre.

At a conservative estimate there are 14 million unemployed in India today. The Indian labour force is expected to increase by 63 million in the next 10 years. Since, at the present rate of growth not more than 40 million new jobs would be found at the end of the decade, 37 million would probably be unemployed in 10 years' time. Thus, on an average, the number of the unemployed would increase by 6,000 per day during the 70s.

The Index of industrial production which rose by 6.6 per cent in 1968-69 and 6.9 per cent in 1969-70, declined to 3.5 per cent in 1970-71. During the current financial year the increase is likely to be no more than 2.5 per cent.

The slowing down of the tempo of development is clear from the steep decline in the consents for the issue of capital for companies in the private sector:

	Rs crores
1966-67:	290
1967-68:	216
1968-69:	129
1969-70:	147
1970-71:	98

The industrialist proposes, the Government disposes. Every year the number of applications for licences increases, but the percentage of applications granted decreases. As against 1200 applications made on an average between 1959 and 1966, 1800 applications were made for new investment in 1970 and about 3200 in 1971. But as against 700 licences issued every year between 1959 and 1966, only 334 were issued in 1969 and 438 in 1970. In 1971 less than 500 proposals for new investment have been sanctioned.

The extent to which economic growth is held in chains can be gauged from the fact that although a total number of 130 applications were received by the Government from the 'larger' industrial houses since the announcement of the new licensing policy in February 1970, only one industrial licence and nine letters of intent have been issued so far.

Obsession with Big Business

"All isms are lethal", said Jung. Our obsession with big business and concentration of economic power and our penchant in favour of micro-mini enterprises take little account of the fact that the whole concept of creation of national wealth has been revolutionised in modern times by economies of scale and fantastic technological advances. Man will sooner discover a cure for cancer than for macrophobia and microphilia. We have yet to learn that national prosperity is indivisible and that in a well conceived economy a big enterprise will give crores of rupees to the national Exchequer, millions of profits to ancillary small-scale industries and employment to thousands. This is so evident as to be a truism, but it cannot be repeated too often in our time and land. The public postures and attitudes on this vital issue are of direct relevance to your Company as its size attracts the provisions of the Monopolies and Restrictive Trade Practices Act, 1969.

Perhaps there is no other country on earth which has in such ample measure all the enterprise and skills needed to create national wealth, and which takes such deliberate and endless pains to restrict and hamper its creation.

Gap in Employment

The economic picture in India would change beyond recognition if the time and energy which are today expended on seeking to close or reduce the income gap between the top executives and the work-force were to be directed to eliminating the gap between those already employed and the hapless millions of the jobless. It has been calculated that if the income of every one earning over Rs 25,000 annually were to be equally distributed amongst all, it would mean only a rise of 40 paise in the annual per capita income.

Our vertiginous rates of income-tax and wealth-tax are such as to put a ceiling on income and property, although in practice it operates more effectively as a ceiling on honesty and public morality. Would not our unfortunate masses be better off if our public policy were directed towards allaying the pangs of hunger rather than the pangs of envy? And the higher the content of envy in a society, the lower is its rate of growth.

The unfailing measures of a nation's development are — the gross national product, the availability of work, the distribution of income and the quality of life. Out of these four measures, we have concentrated almost wholly on the distribution of income. Our peculiar brand of socialism has prevented us from increasing our gross national product, and the availability of work, i e, the job potential in the country.

As regards the quality of life, its impairment was cataclysmic in 1971 when the basic human rights of our citizens were negatived by the Twenty-fourth and Twenty-fifth Amendments to the Constitution. De Tocqueville remarked that nothing is more arduous than the apprenticeship of liberty. Freedom is fragile and evanescent; it is not to be inherited in the bloodstream. It is a measure of our immaturity as a democracy and the utter apathy of our people that the betrayal of our basic freedoms excited less public debate than passing trivialities.

Significant Fact

"All happy families resemble one another, but each unhappy family is unhappy in its own special way." Tolstoy's famous words at the beginning of *Anna Karenina* apply just as well to relations between the Government and the governed. When the Government and business are at odds, politicians and financial papers need daily columns to explain just how wide and unavoidable their differences are: when the two come together and work in harmony, there is very much less to say. The economic miracles of West Germany and Japan are, in a large measure, due to the total understanding and co-operation between the men who create national wealth and those in power who regulate its creation.

There is one very significant fact which seems to have escaped public attention. At the meetings of the Boards of Directors of various companies, the Directors nominated by the Government are most helpful and understanding and as keen to contribute to the growth and development of the enterprise as the captains of industry themselves. Likewise, at the annual general meetings of shareholders, the tremendous voting power of the Government-controlled financial institutions is used wisely and reasonably. Why cannot the same spirit of understanding and goodwill be evinced by the Government in the other areas where policies are shaped and the laws are administered?

The time has come to substitute hard realism for slogans and practical objectives for vague aspirations. 'Garibi hatao' is at worst a slogan and at best an aspiration. If your objective is to keep the country in the mainstream of self-generating growth and development (which would involve an annual growth rate of at least 10 per cent) and to raise the standard of living of the masses, you may as hopefully find the solution in slogans and aspirations as find silence in a discotheque.

Cement being literally the base for building up our national economy, one would have thought that the industry would be given every encouragement by the Government to grow and develop. Inscrutably, the status of "priority" industry enjoyed by cement since 1964 has been withdrawn by the Finance Act, 1971. This will result in the tax burden being increased from 50.6 per cent to 55 per cent, apart from the surcharge which was imposed in December 1971. Cement is a highly capital-intensive industry requiring large investments and a long gestation period, and it has a whole chain of beneficial multiplier effects. There is not the slightest justification for its exclusion from the list of priority industries.

Inadequate Wagon Supplies

Further, the development rebate which had already been reduced from 35 per cent to 25 per cent for priority industries, will be abolished altogether in respect of plant and machinery installed after 31st May 1974. The unwise abolition of development rebate will increase substantially the tax burden on the corporate sector, drive companies to obtain assistance from financial institutions instead of financing development from self-generated resources, and leave companies free to distribute dividends out of moneys which would otherwise have been ploughed back compulsorily as development rebate reserve.

Wagon supplies continued to be very inadequate during the year. As a result of this shortage, your Company suffered a loss in distribution of 7 lakhs tonnes, resulting in the pegging down of our production, in spite of our efforts to increase transport by road. A quarter of our total despatches are now by road.

In my Statement of January 1969, I had referred to the great hardship to the Company and the irretrievable loss caused to its small shareholders in consequence of the unending litigation for every year in which the Company has claimed tax relief in respect of new factories on the ground that they were newly established undertakings. The Appellate Assistant Commissioner and the Income-tax Appellate Tribunal have upheld the Company's claim for tax relief, but the Income-tax Department's reference against the Tribunal's decision is pending in the High Court. Further, the question of the correct mode of computing the capital employed in the newly established undertakings has been sent up for determination to the Central Board of Direct Taxes, and its decision for the last so many years is still awaited. Consequently, there is no final decision yet as to the Company's and the shareholders' claim to tax relief right from the assessment year 1957-58 up to date. In the meantime, the shareholders' assessments get completed and become final. I believe that more than 90 per cent of the shareholders who are entitled to tax relief in respect of dividends paid out of profits of our new factories, will never get it, because of the wrong attitude taken up by the Department in the first instance and the interminable proceedings which go on in respect of every year's assessment.

Your Company has decided not to take a passive or defeatist attitude. It has been privileged to play a pioneering role in the manufacture and distribution of cement in India and has built up an enviable reputation for quality and integrity, and it will continue its endeavours to hold its foremost rank in this basic industry. The Company earnestly hopes to utilise its vast technological and human resources in new industries and areas of production and thus make even a greater contribution to the development of our national economy. Whether our hope will be fulfilled or frustrated will depend on how far our Government is willing to meet its mandate to the country by realistic economic rethinking.

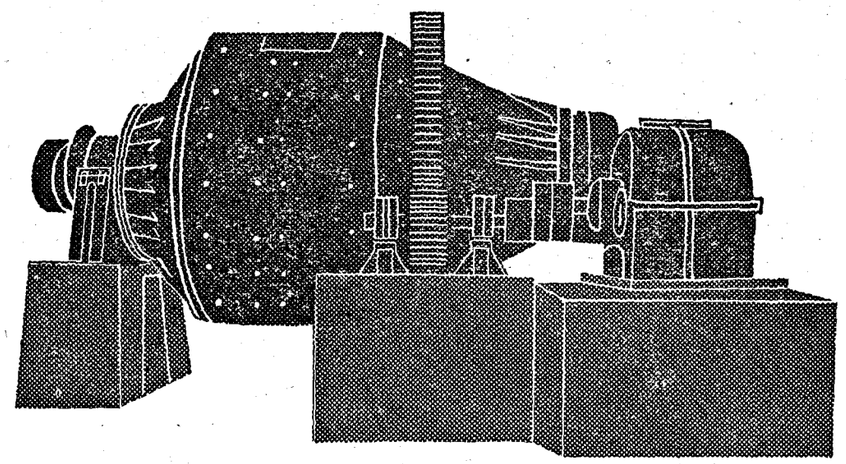
Gratitude

The members of the far-flung ACC family — at the Works and the Collieries, the Offices and other establishments — have done their job during the year with loyalty and dedication which deserve our appreciation and gratitude.

Bombay, December 29, 1971

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ECONOMIC AND POLITICAL WEEKLY

A Sameeksha Trust Publication Rs 1.25 Vol VII No 3 January 15, 1972

A TIME FOR HUMILITY

DISSECTING THE TAX STRUCTURE

MIRAGE OF NEUTRAL SOUTHEAST ASIA

WORKING FORCE IN 1971 CENSUS

INDO-US RELATIONS: THE WAR AND AFTER

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Bangla Desh

BANGLA DESH's unstinted welcome to Mujibur Rahman, his notable lack of need to make more than a passing reference to the unity of the people, his confident expectation that the Mukti Bahini would rededicate itself to relieving the distress of the people through taking part in national reconstruction and, most significantly, his quick and smooth transition from being a revered president to becoming a powerful prime minister, all point to an untroubled consolidation of power by the Awami League. Sections which are not unduly enamoured of the Awami League, like some of the student guerillas in the Mukti Bahini and the Toha and Huq groups of 'Naxalites', are too small and too isolated in the present mood of national euphoria to cause any embarrassment to the Mujib government. Others like the National Awami Party (Muzaffar Ahmad group) are not strong enough to bargain for governmental dividends in return for their support to the Awami League. The question of political power in Bangla Desh thus appears to have been definitely settled for the moment.

The problems that face the new state are, of course, staggering. There are the ten million refugees returning from India plus those within the country uprooted by the war and the ravages of the Pakistani army who have to be resettled. The withdrawal of the Indian army has to be made possible in the quickest possible time. The orientation of the economy has to be completely changed. And yet in the midst of all these problems what stands out is the impression that Bangla Desh is a nation remarkably well formed at birth. The pathways for the new nation to take already appear clear and well determined. There is almost a touch of inevitability about the characterisation of the new republic as "democratic, secular and socialist".

This has its hidden danger — that of Bangla Desh slipping into the stereotype of the well behaved developing country, with no kinks and warts, admired and liked by all, or almost all. Much of this international goodwill will immediately be available to be converted into economic assistance. And given the magnitude of Bangla Desh's problems it might appear that no amount of aid would do. But precisely because a great deal of aid is likely to be forthcoming, the government is in danger of getting occupied with the hunt for more aid instead of asking itself whether it could not really do without a good part of what is already at hand.

The suggestion that Bangla Desh could pull through without "massive" aid from outside will be rejected out of hand by conventional economic calculation. But to do so would be to fail to take account of the peculiar structure and needs of an essentially subsistence economy which have a habit of making nonsense of predictions of economic 'crises'. Thus Sukarno's Indonesia survived almost monthly warnings of economic collapse as estimates of inflation, based on conventional price indices, climbed another few score points!

In the case of Bangla Desh, newspaper reports in India were making out in those months of the West Pakistani terror that a famine was only just round the corner. Recent first-hand reports, however, give no cause for such alarmism. The crops had been good and, while industry and commerce were grinding to a halt, people in the countryside were harvesting rice. The jute mills operate at about one-third their capacity, but the raw jute was cut and ready in bales: 80,000 tonnes lay awaiting shipment at Chittagong. In today's situation in Bangla Desh, efforts to set up a public distribution system would be worth many hundred thousand tonnes of imported foodgrains. On the other hand, imports of essential (and many not-so-essential) consumption goods financed by aid from outside (including from India) will take the pressure off the effort to put Bangla Desh's export industries, particularly jute, on their feet.

As much as ready availability of aid, what is likely to promote a 'soft' view of the economic tasks in Bangla Desh is the anticipation of a better life by a small section of the population following its assumption of prized administrative, commercial and industrial positions. The pressure will be for a 'civilised' standard of living, requiring either the import of a range of consumer goods or, in the longer run, the building-up of an industrial pattern to substitute such imports. At last in control of the country's foreign exchange resources and with a choice of supply sources, it will be relatively easy for the decision-makers to get what they want. Yet this would also be the time to set priorities in social consumption while the country's industrial slate is relatively clean, for deciding to do without some at least of the range of products which Bangla Desh claims West Pakistan had been dumping in its markets and for using a minimum of external assistance to build the infrastructure for a socially relevant pattern of industrialisation. Bangla Desh can learn from the experience of this country about the dangers of aid-dependent economic planning.

Fourth Plan

Far from Dispensing with Aid

A Correspondent writes:

THE Fourth Plan had estimated that gross external assistance of Rs 4,130 crores would be necessary to close the gap between payments and receipts of foreign exchange during the Plan period. The Mid-Term Appraisal, which was completed before the suspension of aid by the United States, suggests that the gap would widen by Rs 464 crores to Rs 4,594 crores. Out of the total promised aid, the cancellation of aid by the US so far affects only $ 86 million dollars. The rest of the aid in the pipeline would continue to be available. In view of the lag between aid authorisation and utilisation, suspension of US aid need not affect aid-financed imports from the US provided the rate of aid utilisation is stepped up. Now that the country can afford to do without PL 480 food assistance, the net impact of aid suspension would be in respect of non-PL 480 assistance which averaged annually at about $ 266 million during 1967-68 to 1970-71. Assuming that the country is not to depend upon US assistance in the last two years of the Plan, the shortfall in total external assistance would be around Rs 400 crores. If the planned aid from other sources comes through, the total gap envisaged in the Mid-Term Appraisal would widen from Rs 464 crores to around Rs 850 crores.

There is a possibility that aid from other sources might turn out to be somewhat larger than in the recent past. But it would be too much to expect that assistance during the last three years of the Fourth Plan would amount to Rs 2,890 crores, as required in the Mid-Term Appraisal. Aid available during the Plan's first two years was Rs 1,690 crores, or Rs 1,306 crores if PL 480 assistance is excluded. Thus as against an annual average of Rs 845 crores of assistance available during the first two years, the Mid-Term Appraisal assumes that aid availability during the remaining three years would rise to an annual average of Rs 963 crores. What is more, almost all of this aid would have to be of the non-PL 480 variety. Clearly, external assistance of this order is unlikely to materialise in the changed climate for foreign aid. On the subject of foreign aid, the Mid-Term Appraisal's projections are thus patently unrealistic.

The lack of realism becomes clearer if the basis on which the aid requirement figures are worked out is examined in detail. In spite of the poor performance of exports during the last two years, it is assumed that exports would increase to Rs 1,660 crores in 1970-72, Rs 1,760 crores in 1972-73 and Rs 1,907 crores in 1973-74. Exports rose by about 4.5 per cent per annum in the first two years of the Plan (after making adjustments in the figures to take account of the changed system of recording of exports). And in the current year, in spite of a fortuitous spurt in export of jute manufactures exports are unlikely to increase by more than 5 per cent. It would, therefore, be somewhat unrealistic to assume that exports would increase at an annual rate much higher than 5 per cent during the last two years of the Plan, once exports of jute manufactures settle down to their normal level. Even on this optimistic assumption, aggregate exports during the Fourth Plan period are likely to be around Rs 7,800 crores or Rs 475 crores less than the Mid-Term Appraisal figure of Rs 8,275 crores. Since foreign exchange payments in respect of major items other than imports — debt service payments and other invisible and capital transactions — are unlikely to come down (in the absence of a large-scale rescheduling/postponement of debt repayment) the total external gap of Rs 850 crores referred to above would widen by another Rs 475 crores to Rs 1,375 crores on account of shortfalls in planned exports. If the Plan's expectations of growth of imports materialise, then the country would need on average foreign assistance of Rs 1,100 crores annually during the last three years of the Plan.

In fact imports have not so far increased at the rate indicated in the Plan. It was assumed that non-food imports would increase at an annual rate of 5.5 per cent. Non-food imports, however, declined from Rs 1,567 crores in 1968-69 to Rs 1,322 crores in 1969-70 and their 1970-71 level of Rs 1,456 crores was still below that of 1968-69. According to the Mid-Term Appraisal total imports would rise from Rs 1,669 crores in 1970-71 to Rs 2,106 crores in 1971-72. During April-November 1971 total imports amounted to Rs 1,227 crores and they are unlikely to cross the level of Rs 1,850 crores in the whole of 1971-72. Excluding anticipated imports of foodgrains, non-food imports during 1971-72 would amount to Rs 1,700 crores. While non-food imports may be expected to show a spurt of about Rs 250 crores in 1971-72 over 1970-71, they are unlikely to increase to Rs 2,139 crores in 1972-73 and Rs 2,350 crores in 1973-74. True, investment activity, in both the private and public sectors, may be stepped up in the last two years of the Plan leading to a rise in imports. But in view of the lag between the granting of import licences and imports actually materialising, non-food imports may not rise as high as anticipated in the Mid-Term Appraisal. On reasonable assumptions, the total import bill during the Fourth Plan period may be expected to amount to about Rs 9,300 crores or Rs 600 crores less than envisaged in the Mid-Term Appraisal.

If these adjustments are made for overestimation of imports and exports in the last three years of the Plan in the Mid-Term Appraisal, the deficit on external account, to be covered by foreign aid, might amount to Rs 2,760 crores. In other words, unless foreign assistance of the order of Rs 920 crores becomes available annually during the last three years of the Plan, even the modified targets proposed in the Mid-Term Appraisal might not be realised. Clearly, Rs 920 crores is a very high figure of foreign aid and this alone should underscore the need for a reappraisal of the Fourth Plan.

Backward Regions

And Now Development-dan!

BALANCED regional development has been enshrined as one of the basic objectives of planning in every five-year plan and yet the disparities between the developed and the backward regions have widened. This has not been an altogether fortuitous development. Proof of the official indifference to regional development was to be seen till very recently in the failure to delineate backward areas or even to gather data on regional growth rates. The Committee on Industrial Licensing brought out in its report how the licensing authorities have generally disregarded regional development as a consideration in licensing industrial units. And given the indifference of the Planning Commission and the licensing authorities, the term financing institutions saw no particular reason to bother their heads about regional imbalances.

More recently backward states as well as backward districts in the various states have been identified and attempts have been made to assess their growth potential. Also, in a few of the states, efforts have been made to channel private industrial investment into backward regions. These efforts have been really an offshoot of the more general attempt on the part of these states to attract larger amounts of private investment within their borders. The term financing institutions now offer assistance on softer terms to industrial units to be located in backward areas. That apart, these institutions have in the last year or so shown a growing concern for development of backward regions.

The IDBI has released this week a kind of progress report on its efforts, in collaboration with other institutions like ICICI and IFC, in this direction. Broadly, these efforts relate to (a) formation of inter-institutional groups at the state level for identification and implementation of industrial projects; (b) setting up of a jointly sponsored and financed technical consultancy service centre for each state; (c) making arrangements for conducting training programmes for potential entrepreneurs; (d) setting up of 'development centres' at some focal district points to provide financial/technical/marketing services to agriculturists and industrial entrepreneurs; and (e) identification of project ideas on the basis of research carried out by the national laboratories and research institutes. IDBI has also set up a working group to study the operations of SIDCs/SIICs/SSICs with a view to integrating their activities with the IDBI network of financial and promotional facilities.

To show that it means business, the IDBI demands that "consistent with the national objectives it should be free from inhibitions emanating from any doctrinaire consideration". For instance, it adds, "there should not be any bar in using the entrepreneurial/managerial skills of the successful industrial houses". Why, the IDBI is even proposing to "request" big business houses to sort of adopt identified backward 'regions' and develop them so that every family earns an annual income of at least Rs 3,000. So now we have 'development-*dan*' to follow bhoodan and gramdan!

While the concern of the IDBI, and the other term financing institutions, for the development of backward regions is wholly to be welcomed, doubts persist whether their efforts in this area are not really in the nature of a codicil to their main activity of financing and otherwise assisting large and medium industrial projects. The question to ask is whether the potential for development of backward areas through socially rational location of these projects is being fully or even substantially exploited. It is not, unfortunately. The investment generated by the operations of these institutions still remains concentrated in a few already industrialised states. For instance, fully 49 per cent of all net assistance sanctioned by the ICICI till the end of 1970 had gone to two states: Maharashtra and Gujarat. In fact, Maharashtra's share of the total actually went up from 34.9 per cent at the end of 1969 to 36.7 per cent at the end of 1970. This is not to criticise a particular financial institution or even the financial institutions as a whole. As mentioned above, the licensing authorities as well had in the past paid scant attention to influencing the location of industrial units. What one does hope, however, is that some of the financial institutions' new-found concern for development of backward regions — which appears to be taking them in some unconventional and even Gandhian directions! — will rub off on their *normal* activities.

Newspapers

Freedom in Action

HAD not the government decided that newspapers would be given their newsprint quotas for the first quarter of 1972 on the basis of an average of only 10 pages per day? Yet none of the major newspapers have the lean and hungry look; all of them continue to come out with very many more than the prescribed 10 pages. Nor is it that the newspapers are using anything other than newsprint. Of course, this will be explained all round in terms of accumulated stocks of newsprint. Would the government want to find out how these stocks were built up? Perhaps not; after all, the freedom of the Press must not be pried into too closely!

Something else of interest has recently happened in the newspaper world. The 10-page ceiling on newspapers was occasioned by the need to prune newsprint imports in the wake of the suspension of US aid. But, it was hoped, it would have the same sort of effect as a price-page schedule by compelling the larger newspapers to reduce the advertising they carry. To the extent that the newspapers manage to continue to bring out more than 10 pages this expectation has been already partially belied. But the larger newspapers have sought to protect their advertising revenues by another device. By a strange coincidence all the major English and some prominent language dailies suddenly became aware in the latter half of December of sharp increases in their cost of production and on that ground informed their advertisers of steep increases in advertising rates, ranging from 15 per cent to as much as 35 per cent. And by calling the increases 'surcharges' on the existing rates, they have been made applicable to running contracts as well. Some of the newspapers have helpfully suggested to their advertisers that they would not mind if, in the face of the increase in the rates, advertisers reduced the quantum of advertising provided the value of advertising was more or less protected. If this tactic works then there will be little redistribution of advertising in favour of the smaller papers, since the fixed advertising budgets of most advertisers will now be spent on acquiring a smaller volume of space in the apparently indispensable national dailies.

For the moment, however, the advertisers are putting up a fight. The Indian Society of Advertisers, which is usually on the best of terms with the biggers newspapers, is reported to have lodged a protest with the Minister of State for Information and Broadcasting. Now it remains to be seen whether the government will play the knight errant and follow up its recent step taking powers to control newspaper prices with an attempt to control newspaper advertising rates! More sensibly, it might decide to exploit the situation created by the blatant avariciousness of the bigger newspapers to clamp a steeply graduated tax on advertising revenues of newspapers. This may be depended upon to provoke cries about the freedom of the Press being threatened. But the kinds of exercise of freedom by the Press witnessed recently could perhaps do with some threatening.

Annual Number 1972

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

In view of the Annual there will be no weekly issues on January 29 and February 5 and 12.

A Nice Round Figure

THE Reserve Bank, it is well known, has been averse to setting quantitative targets for banks, whether in respect of sectoral allocation of credit, or expansion of advances to 'priority' sectors or multiplication of bank branches. Why then has it decided to come out with a "perspective plan for commercial banks branch expansion" calling for the opening of 5,000 new bank branches during the three years, 1972-74? Is this "perspective plan" the Reserve Bank's response to the growing feeling that the progress of banking is loosing the thrust and momentum of the early post-nationalisation period?

The number of new commercial bank branches opened rose from a monthly average of 56 in 1968 to 144 in 1969 and reached a peak of 178 in 1970, the first full year after nationalisation. The pace flagged visibly in 1971, in the first ten months of which 1,242 branches were opened, giving a monthly average of 124. The target of 5,000 new branches over the next three years yields a monthly average of 139. Thus the Reserve Bank is holding out the assurance that there would be no *further slackening of branch expansion over* these three years and that, in fact, the performance of the first 10 months of last year might be improved upon somewhat.

But apart from giving an acceptable average figure of new branches per month, does the target of 5,000 new branches really have any basis? Is it the Reserve Bank's considered judgment that 5,000 is the maximum number of branches that banks can open in the next three years, given their organisational and manpower resources? Or, is it the Reserve Bank's assessment that 5,000 branches are required to match the pace and spread of growth of the economy? Or, again, has the Reserve Bank come to the conclusion that, given the rate and pattern of growth of the economy over the next three years, the figure of 5,000 roughly approximates to the number of 'viable' and 'potentially viable' centres likely to be available for branch opening?

Frankly, it does not appear that the target of 5,000 new branches has any connection with any of these considerations. It is simply a nice round figure. This is borne out by the manner in which, in the press note issued by the Reserve Bank on the subject of its perspective plan, transparently conflicting objectives are glibly pressed upon the commercial banks.

The Reserve Bank has asked banks to prepare state-wise plans for branch expansion. These plans are to be based on each bank's responsibility in its respective 'lead' districts. The plan must at the same time take into account each bank's existing areas of operation. And, finally, the plans must give priority to opening branches in eight backward states: Assam, Bihar, Jammu and Kashmir, Madhya Pradesh, Nagaland, Orissa, Uttar Pradesh and West Bengal. (Incidentally, how did Meghalaya, Tripura and Manipur, which are to become full-fledged states shortly, escape the Bank's notice?) Now, the Reserve Bank should be the first to admit that the Lead Banks Scheme still remains largely on paper. What then is meant by asking banks to prepare plans for branch expansion "keeping in view their responsibility in their respective lead districts"? Similarly, how are banks to give priority to the backward states while at the same time "keeping in view ... their [present] areas of operation"? The exhortation to give priority to the underbanked states would seem to suggest a desire on the part of the Reserve Bank to promote regional dispersal of banks' operations whereas the injunction to the banks to keep in view their present areas of operation suggests precisely the opposite.

The Reserve Bank's press note raises doubts even about the seriousness with which the Bank views its own target of 5,000 new bank branches in the next three years. Thus it says: "Since the identification of further centres with the help of the lead bank surveys will be at a somewhat slower pace, and considering the strain on their manpower and other resources, the banks should be more selective in the matter of branch expansion." Now, what is meant by "at a somewhat slower pace" or by being "more selective"? Slower and more selective than in 1971? In which case how is the target of 139 new branches on average per month over the next three years to be met? Again, banks are advised, in making their branch expansion plans, to "fulfil the twin considerations of providing banking facilities in centres with adequate banking potential and avoiding wastage of scarce resources involved in opening branches in areas where they cannot be sustained". What precisely is this concept of "adequate banking potential" and, if banks are to let themselves be transfixed by it, how are they to fulfil their commitment to take banking to backward and underdeveloped regions? And what about the whole Lead Banks idea which requires banks to create the "banking potential" by stimulating development in the districts allotted to them?

All in all, the Reserve Bank's press note is scarcely illuminating on the "perspective plan" for branch expansion — if indeed it is serious about such a plan. One thing it does do, however. This is to expose the conflicts which persist, two and a half years after the nationalisation of the major commercial banks, in the thinking of the Reserve Bank between the traditional objectives of banking (such as short-run growth of deposits/advances, profitability and security) and the much-touted new goals (such as extension of banking into backward areas, assumption of a direct role in promoting development by banks and breaking away from the standard commercial norms of banking).

Bangla Desh

Filling the Shipping Vacuum

A Correspondent writes:

IN the economic reconstruction of Bangla Desh an area that needs high priority attention is that of shipping. Arrangements have to be made to replace services which had been so far provided by Pakistani shipping companies.

The development of shipping in Pakistan had been confined almost entirely to the West where the country's mercantile marine fleet of about 6.5 lakh tonnes was based. All the Pakistani shipping companies engaged in international trade and trade between West Pakistan and Bangla Desh were registered in Karachi and had their head offices there.

Pakistan had no shipping worth the name at the time of Partition. Almost all the shipping companies of undivided India, coastal as well as foreign going, were based in Bombay and Calcutta. Pakistan thus started "with a merchant fleet of three old ships of a total of 18,000 dwt", as an official Pakistani publication put it. The subsequent growth of Pakistani shipping took place initially in the private sector. The government came into the picture only

in 1963, following India's lead in starting a State-owned shipping company.

A notable feature of Pakistan's shipping industry is that it is about the only major industry in the country in which non-Muslims have a substantial say. At the time of Partition, there were some Parsi business houses in Pakistan who were associated with shipping, as prospective shipowners or as ship-chandlers or stevedores. There were the Dinshaws who had planned to launch a shipping company in undivided India but had to give up their association with the company following Partition. They went ahead with their plans of becoming shipowners by launching a shipping company of their own in Pakistan. Similarly, the Cowasjees were leading stevedores in Karachi and they too soon entered the shipping industry. In due course, leading industrial houses and banking firms also entered the field and by 1963 Pakistan could boast of a sizeable tonnage. In that year the government-owned National Shipping Corporation of Pakistan was formed. According to the latest available information, Pakistan's mercantile fleet had a tonnage of about 6.7 lakh dwt of which the National Shipping Corporation's share was 2.77 lakh tonnes.

Pakistani shipping companies thrived on the trade between the western and eastern wings of the country which was their monopoly. Gradually they also entered international trade routes, carrying Bangla Desh jute and jute goods, Sind and Punjab cotton and cotton cloth from Karachi's textile mills. Pakistani ships operated on a number of routes such as Pakistan-UK-Continent, Pakistan-East Africa, Pakistan-Baltic Sea, Pakistan-Singapore-Hong Kong-China, Pakistan-USA, Pakistan-Japan, Pakistan-Persian Gulf ports, Pakistan-Red Sea ports and Pakistan-Colombo-Burma. Before the 1965 war between India and Pakistan, Indian ships were free to call at Pakistani ports and so were Pakistani ships to call at Indian ports. But after the war this ceased and only third country ships could carry cargo for both countries and call at their ports. This resulted in the consolidation of the Pakistani shipping companies' position as carriers of national cargo.

The 1971 war has had far-reaching effects on Pakistani shipping. First, that country's merchant fleet has lost six or seven ships captured by the Indian Navy. Thus about one lakh tonnes have been lost to Pakistani shipping companies. Second, these companies have lost the east-west trade in which they had a monopoly. Even after Pakistan recognises Bangla Desh and succeeds in re-establishing trade links with it, Pakistani shipping companies will never again be a dominating factor in this trade. Third, the Pakistani companies have also lost their share of Bangla Desh's foreign trade, which would affect their position even more seriously than the cessation of the east-west trade. With the loss of Bangla Desh jute and jute goods and other cargo, Pakistan's shipping companies would lose the larger part of the cargo hitherto carried in their bottoms to world ports. Very rough estimates are that some 50,000 tonnes of Pakistani shipping would be rendered idle by the loss of the trade with Bangla Desh and the cargo available to Pakistani ships for carrying to world ports would be reduced to less than half as a result of loss of Bangla Desh cargo.

Two Pakistani shipping companies, the government-owned National Shipping Corporation and the Pakistan Shipping Line, are members of the Karmahom Conference of shipping companies plying ships between Indian and Pakistani ports and UK-European ports. Three Indian companies are members of the Conference. The Pakistani members have been allotted a share of 40 per cent of earnings from cargo lifted from Pakistani ports and unloaded there. But with the loss of Bangla Desh trade, the Conference will have to take another look at this arrangement and re-determine the share of the Pakistan shipping companies.

A more important problem is, of course, that of organising shipping services to Bangla Desh. Bangla Desh has some small ships for its riverine trade. In fact, there has been in existence a Shipping Corporation for East Pakistan, on the lines of the National Shipping Corporation of West Pakistan, but its operations in the east were confined to ferrying passengers and goods through inland waterways. The Bangla Desh government may decide to revamp this Corporation as the country's international carrier.

Newsprint

Larger Capacity, Lower Production

THE working of Nepa Mills, the country's sole producer of newsprint, shows no improvement whatsoever. In his annual statement to shareholders (for text see pp 43-4, January 1), the chairman of the company, Hari Singh, points out that net loss declined to Rs 52 lakhs in the year ended March 1971 from Rs 92 lakhs in the previous year. But this was on account of factors none of which reflected an improvement in the company's operations. First, the company actually cut production so as to give up use of imported pulp which is costlier than indigenous pulp. Second, the government raised the selling price of the company's newsprint to Rs 1,350 per tonne from Rs 1,100 in respect of sales made through agents. With effect from September last year the price has been further raised to Rs 1,362 per tonne. Third, though the country continues to be woefully short of newsprint, the company cut its production of newsprint to produce 1,000-odd tonnes of writing and printing paper because the latter fetched Rs 1,950 per tonne.

Price revisions and small changes in the production pattern will not, however, turn Nepa into a viable unit. Nepa's present troubles are the result of the hopelessly poor planning of its expansion programme which has nominally increased its capacity from 30,000 tonnes per annum to 67,500 tonnes. Between 1963 and early 1969, when the second paper machine was commissioned, the cost estimates of the expansion had to be revised no less than seven times and the final cost turned out to be over 50 per cent higher than the initial estimate. But this is not the worst of it. Nepa's pulping plant, which is to provide pulp for the expanded paper-making capacity and which should have been commissioned about the same time as the second paper machine, is still not ready and will not be till mid-1974. Because of this imbalance between its paper making and pulping capacities, Nepa was able to produce only 37,270 tonnes of paper in 1970-71 against the capacity of 67,500 tonnes. Since the attempt to increase production with imported pulp has been abandoned, the company appears to be resigned to working at little over 50 per cent of capacity, for the next three years at least. What havoc this plays with Nepa's operating economics can be seen from the fact that at last year's level of output, depreciation and interest charges on government loans (at concessional rates of interest at that) add up to Rs 212 per tonne of paper or 17 per cent of the total cost of production!

On the reasons for the snail's pace progress of the pulp plant, Nepa's chairman every year faithfully repeats the excuse that the civil construction of

the building for the plant is held up "owing to non-availability of structural steel". This is scarcely credible. There is something seriously wrong with the government's steel allocation system or with the Nepa management or both if the progress of a Rs 13-crore project on which over Rs 7 crores have been already spent is allowed to be indefinitely delayed for want of some steel for civil construction.

Since Nepa's pulp plant is to be counted out till 1974 or even later, there is only one sensible course open to the government. This is to allow a further rise in the price of Nepa newsprint—say, from the present Rs 1,362 per tonne to Rs 1,550, at which level it will still not compare too unfavourably with the price of imported newsprint. This should enable Nepa to achieve fuller utilisation of capacity (assuming, of course, that the rumours about the continuing "teething troubles" of the second paper machine are false) by using imported pulp. Surely, it is commonsense to import pulp for processing in a plant already set up rather than import finished newsprint.

Cement

In Fear of Losing the Props?

TWO years after demand for cement has picked up again, Associated Cement Companies—the oldest and single largest cement producer in the country—still failed to reap the benefits of it, notwithstanding the completion of its vast expansion programme of about 3 million tonnes. In fact, with production in 1970-71 about the same as in 1969-70, its capacity utilisation was lower. Moreover, although sales increased by Rs 6 lakhs, gross profits were lower, owing to rising costs. ACC thus illustrates that economies of scale are not to be taken for granted in the cement industry. ACC's chairman, N A Palkhivala, blames the stagnant production on dearth of wagons, leading to clinker accumulation at the factories. With most of ACC's units concentrated in the nearly 2-million-tonne surplus southern region, movements of raw materials and finished product would naturally pose problems. On the other hand, ACC, like India Cements, has benefited from the price control that persisted amidst plenty and from the newly elevated uniform retention price of Rs 100 per tonne for cement manufacturing units both old and new. The pressures to reduce costs and to locate units in the deficit zones, which a competitive market might have precipitated, have thus never had to be faced. That cement is eminently profitable nevertheless, seems evident in the 28-odd licence applications received meanwhile by the Ministry for Industrial Development.

For all the cushioning, Palkhivala complains about the industry having been taken off the priority list, which would increase nominal tax liability from 50.6 per cent to 55 per cent. The abolition of the development rebate from May 31, 1974 would further add 'substantially' to the tax burden. Thus (unless government is forthcoming with another price rise) ACC's prospects are none too bright.

Indeed, the extent of ACC's dependence on fiscal concessions becomes clear from its reserves and dividends over the years. Of the total reserves of Rs 23.1 crores, development rebate reserve accounts for as much as Rs 12.2 crores. Over the past 13 years, moreover, to maintain dividend at 12 per cent, continuing drawals have been made on reserves. Indeed, for 1967-68 and 1968-69, the two years when demand was lagging, the entire dividend was financed from this source.

With the company's performance showing no improvement, the expansion has been financed primarily by the financial institutions and then by the development rebate, even as payments to shareholders have been maintained by drawing on past surpluses which could otherwise have been ploughed back for expansion. No wonder, then, that the company is hoping for further price hikes. If Government were to do the 'realistic economic rethinking' advocated by ACC's chairman, should it not expose the industry to the winds of competition and more wisely use the development rebate (which is 'revenues forgone' by Government) for development of newer industries where the risks are higher?

Silk

Multi-Point Failings

THE decline in India's exports of silk fabrics, from Rs 14.30 crores in 1969 to roughly Rs 7 crores in 1971, has been dramatic. This is not so surprising considering the very narrow product range on which exports were thriving. During 1969 and 1970, West Europe and the US were mostly buying a single product, *viz*, scarves. During these two years, over 50 per cent of India's silk fabrics exports comprised scarves. By early 1971, scarves were no longer so much in vogue, and there was consequently a sharp decline in the total value of India's export. The experience should make our exporters sit up and consider the particular requirements of marketing a highly fashion-sensitive consumer item such as silk.

There is in fact a good demand for silk fabrics in the Western markets, despite the inroads made by synthetic and man-made fibres. A sericulture delegation, which recently returned from a tour of the US, West European countries, Japan and Hong Kong, has also underscored that the greatest impediment to increasing India's exports of silk fabrics is the ignorance of Indian silk manufacturers about the variety of fabrics required to cater to the changing fashions abroad.

To a large extent, this unresponsiveness of the silk industry to market needs stems from the fact that silk units are mostly in the unorganised sector. They, therefore, lack the wherewithal and the expertise to undertake market surveys, etc, for obtaining correct knowledge about the preferences and fashions with regard to silk in foreign countries. Indian exporters thus tend 'to dump' their wares. At the same time, there is a multiplicity of organisations, such as the Handloom Export Promotion Council, the Handicrafts and Handlooms Export Corporation, and the All-India Fabric Marketing Co-operative Society to handle exports of silk fabrics. It might be better, instead, to have a single centralised agency for the purpose. Such an organisation could keep itself abreast of swiftly changing consumer preferences and guide the domestic manufacturers on their product pattern in anticipation of market trends. It could also supervise and check supply of non-standard goods, which does so much damage to the image of Indian goods. There is in fact considerable scope for export promotion, given the wide spectrum of silk items, like tasar fabrics, sarees, dress and tie materials, and furnishing items.

The other serious hindrance to higher silk exports is the more difficult to eradicate. The cost of Indian goods is higher than that of goods from Japan, China and Pakistan who are the major competitors. Indian silk fabric manufacturers, however, often fail to quote competitively despite the liberal export incentives offered. On the f o b value of silk fabrics of 50 per cent and above mulberry exporters get 40 per cent import replenishment for dyes and raw silk and 10 per cent cash incentives, and 10 per cent import licence and 10 per cent cash incentive for mixed silk fabrics. With synthetic and man-made fibres also posing a threat to silk exports, research aimed at cost reduction and creating attractive qualities in Indian silk fabrics is also very necessary.

Raw silk availability has been

another source of concern in recent years. Though production of raw silk increased from 23 lakh kg in 1969 to 28 lakh kg in 1970, the Central Silk Board continued to increase its import of raw silk from Japan and South Korea. Even so, the raw material shortage has persisted. To some extent, manufacturer exporters are themselves to blame for the raw material shortage, as many of them used the import licences issued against exports of silk fabrics to import the more profitable dyes and intermediaries rather than raw silk.

The other side of the shortage is the far higher cost of Indian silk yarn, associated with the low yield of the cocoons. Kashmir, for instance, which is a major centre for the sericulture industry, requires 37,500 kg of parent cocoons to produce its annual requirement of 700 kg of seed, whereas Japan needs only 600 kg of parent cocoons to produce the same quantity of seed. Consequently, the cost of seed in Kashmir works out to Rs 200 per maund of green cocoons produced, against only Rs 40 in Japan. Beyond this, while 8 lakh kg of cocoons yielded only 50,000-60,000 kg of yarn in Kashmir, the comparable figure in Japan was 160,000. The per capita productivity of a filature worker in Kashmir is only 0.1 kg, as against 2 kg in Japan. The result of all this is that, while the price of raw silk in Japan was only Rs 160 per kg, it was Rs 237 per kg in Kashmir.

It is reported that Mysore has a Rs 80-crore crash programme for doubling the production of mulberry raw silk, from 18 lakh kg to 36 lakh kg over the next few years. But the industry badly needs a technological uplift — where, today, it operates in Mysore, as elsewhere, on highly sweated and exploited labour. The sericulture industry like the silk weaving industry has to be much more outward-looking, concentrating more on methods than on getting the most out of cheap labour.

CAPITAL VIEW

Speeding Up Normalcy

Romesh Thapar

HOW can one summarise the mood in the Capital these days? For the first time in the history of free India, everything seems to be working out — and seemingly without a hitch. And it is not that we do not expect the worst. Before Sheikh Mujib returned to his people, the rumours were horrendous. He had been drugged, had lost his memory. He had become incoherent. He had been brain-washed. He no longer existed; a double was parading in his place.

Bhutto has, in a sense, certainly grown in stature though he lied even as he dispatched the Sheikh to an "unknown" destination. But, then, what else could he do? Yes, he could have asked the US Seventh Fleet, with its squadrons of aircraft, to deliver Mujib to Dacca. A masterly move, to explain its presence in the Indian Ocean. But joking apart, now that we have a ringside seat on the naive discussions in the US State Department, following the disclosures about Nixon-Kissinger attitudes on Indo-Pakistani developments in *The New York Times*, we are convinced that these men who discuss at a level lower than an AIR debate cannot possibly regain the initiative.

With Mujib in Dacca, the whole complex process of what is euphemistically called "a return of normalcy" gets speeded up. The business of impounding huge quantities of arms and ammunition will be made easier as patriotic young men, naturally suspicious of what the future holds, respond to the call of the Sheikh — and the adventurers get isolated. The collaborationists, particularly certain ethnic groups who had a hand in the genocide, can now expect more understanding treatment if they mend their ways.

Healthy Attitude

The public attitude in Bangla Desh so far has been most healthy. Contrast it with what happened in the countries of Europe after the defeat of fascism in World War II. Yet, the return to normalcy is important, for it makes possible the speedy handing over the law and order tasks to the armed formations of the Bangla Desh Government. The withdrawal of the Indian Army, already under way, and dependent on the removal of the POWs, can now be intensified.

Very detailed discussions have taken place in Delhi to assess the needs of Bangla Desh. Preliminary surveys confirm that the damage from war has not been extensive. Apart from bridges, which were not destroyed but made unserviceable, various industrial units are more or less intact. The ports are functioning. The bridges should be in operation soon. Merchandise will then start moving. India and Bangla Desh have already exchanged lists of the commodities which will be traded at prices prevailing in the world market. Outright grants and loans on low interest will ease other immediate problems. The building of a new nation will call for reliance on many inner strengths.

The desire is over-riding to prove to the world that the economy of Bangla Desh is viable — indeed, very much more viable than the set-up in Pakistan. Economic viability helps break some of the hesitations in certain quarters which are holding back the recognition of Bangla Desh as an independent, sovereign State. We expect diplomatic recognition to be on the agenda this week.

Bhutto, despite his histrionics and his obvious double-talk and double-think, is showing a certain skill in getting the people of Pakistan to accustom themselves to the fact that their State has been halved. Psychologically, this is not easy to accomplish. We should know. In 1962, when only a division and half of the Indian army had been defeated, the elite showed little stability — and no valuable territory was involved. But Bhutto will have to go further to survive. He will have to shed his anti-India obsessions. There are no dividends in these postures even if the Maoists and Nixonites suggest otherwise.

When the Prime Minister speaks of grave dangers all around, she does not exaggerate. It is still too early to say which way the pendulum will swing. Washington and Peking have yet to play their cards. We cannot begin to forecast until we know what emerges from the Nixon-Mao parleys in February. Meanwhile, New Delhi has served notice on those who are trying to act bogey man in South Asia; the decision to exchange ambassadors with North Vietnam is the beginning of the crystallisation of a new Indian presence in South-East Asia.

However, every day we are reminded by the logic of our present situation that if we are serious about our role in South Asia we had better begin to do some solid thinking on the internal economic challenge. It cannot be met by the men of limited visions who have been entrusted with the economic ministries which make or mar the future. Will this simple fact be recognised — in time?

January 10

Lower Price — If...

Hansavivek

AUTOMOBILE PRODUCTS OF INDIA's Italian collaborator, Innocenti, who has decided to discontine production of 'Lambrettas' as it wants to utilise the capacity for building cars which are in greater demand in developed countries, has offered to transfer its entire plant to India for the manufacture of a range of scooters. The project will be taken up as a joint venture under a new company in which Government of India will hold 51 per cent share capital and Innocenti, API, and the public, the balance of 49 per cent. The project envisages manufacture of 100,000 'Lambretta' vehicles per annum. Other details are being worked out. Meanwhile, API is awaiting government clearance for its own scheme of expansion to 60,000 units per annum. A public inquiry was held last month by the Monopolies Commission. The company has received a 'letter of intent' to expand its capacity for manufacture of clutches, and it expects to get similar permission shortly for its brake project. The clutch and brake division is being shifted from the existing plant at Bhandup in Greater Bombay to Aurangabad, where a new factory is being built with the assistance of Maharashtra government. The company has also received a 'letter of intent' for manufacture of 25 HP tractors in UP, in collaboration with British Leyland. A financial scheme is being worked out, whereby the state government is expected to offer liberal assistance for the project. It will take about 2-3 years for the plant to start operations. Meanwhile, the company will receive periodic licences to import tractors in SKD condition from the UK.

During the 22nd year, ended July 1971, API produced 25,177 scooters and 632 three-wheelers, against 23,303 and 1,301 numbers, respectively, during the preceding year. While sales increased by 11 per cent to Rs 12.13 crores, gross profit expanded by 63 per cent to Rs 88 lakhs. Due to unabsorbed depreciation and development rebate brought forward from the previous years, there will be no assessable income for the year. No provision for taxation has been made in the accounts. A provision of Rs 10 lakhs has been made for earlier years, as there is a contingent liability for taxation which is under dispute. These good results, in spite of the increases in costs of material and labour, are attributed to the success of the cost reduction programmes. In anticipation of further improvement in efficiency and economy, the company has given an undertaking to the Government and the Monopolies Commission that it will reduce the selling price of scooters when expansion is achieved. M A Chidambaram, chairman, points out that the offer is based on the current cost of production and that any increase in cost of material, labour, and other factors would be taken into account and adjusted against the reduction offered.

INDIAN RAYON contends that, while fixing fair selling price for rayon filament yarn, either the smaller units should be kept out of the purview of price control or their cost of production as well as an adequate return on the capital employed should be provided for. It is stressed that Indrayon is a small and uneconomic-sized unit, and that its cost of production is considerably higher than that of the bigger units. If the selling price is fixed on the basis of the average cost of production of various units, it is bound to be below the company's cost of production — and this will cause it "very heavy losses". During its 14th year ended June 1971, Indrayon increased its sales and profit in spite of "steep rise" in cost of production. Of the profit of Rs 68 lakhs, Rs 7 lakhs were provided for development rebate reserve and Rs 61 lakhs for part of the depreciation for 2 years ended June 1965. Neither the arrears of depreciation, aggregating Rs 301 lakhs, nor the arrears of preference dividends, amounting to about Rs 75 lakhs, have been provided for. The company has yet to achieve its licensed capacity. Meanwhile, its application for a 'letter of intent' for manufacture of 10 tonnes of transparent cellulose film per day is being considered by government. Also, an application has been made for a 'letter of intent' to produce 50 tonnes of rayon grade caustic soda per day. These applications, it is claimed, will enable the company to become economically viable.

MYSORE KIRLOSKAR recorded moderate improvement in sales and earnings during the 30th year ended June 1971, although certain of its products were adversely affected by the recession in the engineering industry. Despite higher provisions for depreciation and taxation, net profit was better compared to that in the preceding year. Equity dividend, maintained at 10 per cent on an enlarged capital, was covered 2.58 times. The balance sheet reflected a strong position, with reserves of Rs 217 lakhs against the equity capital of Rs 120 lakhs. One-fourth of the equity capital is accounted for by bonus shares issued from time to time. Efforts are being made by the management to fill up the gap created by the recession. The subsidiary, Precision Tooling Systems, has completed construction of the factory building and is placing orders for import of machinery. It has appointed S N Gurjar, son of N W Gurjar, who is the chairman of both companies, as the Chief Executive for five years as from July 1971 on a salary of Rs 2,300 per month plus commission of one per cent of net profits and other perquisites.

INCHEK TYRES continued to experience "inter-union and group rivalry" in its labour force during the year to June last and could not record any appreciable increase in production. Sales turned out to be higher mainly because of some changes in the production pattern — including production of bigger sizes of tyres — but the outcome was a trading deficit of Rs 18 lakhs against a surplus of Rs one lakh last year. After providing for depreciation and taking into account the loss brought forward from the previous year, the total deficit increased to Rs 96 lakhs. In addition, the company has yet to write off the preliminary expenses of about Rs 5 lakhs. Arrears of dividend on cumulative preference shares amount to Rs 4 lakhs. Since there are no profits, no provision has been made for sundry debtors and loans and advances aggregating Rs 73,184 and Rs 59,146, respectively, which are considered doubtful. D Banerjee, a director of the company who was also Technical Adviser, was paid remuneration, pending government approval. As his re-appointment was not approved by government, Rs 3,500 has been refunded by him. He has also tendered his resignation from both positions since then. The company is seeking government approval for the payment to the managing director and the deputy managing directors of the contractual remuneration as "minimum remuneration" in each case. Managerial remuneration of Rs 45,414 and Rs 1,87,920 for 1969-70 and 1970-71, respectively, have been provided for in the accounts, but have not been paid.

AMERICAN UNIVERSAL ELECTRIC (INDIA), maker of electric motors, fans and evaporative room coolers, has undertaken new projects for manufacture of stamping/lamination, stator rotor sets for hermetically sealed compressors, fans and air circulator, and general purpose motors. A substantial portion of the building is ready, and a large portion of the indigenous plant and machinery has been installed. Orders for imported plant and machinery are being placed. The total outlay on the expansion programme is estimated at Rs 99 lakhs. This is proposed to be raised by issue of additional share capital (Rs 23 lakhs in equity and Rs 12 lakhs in preference), term loan from IFCI (Rs 40 lakhs), and internal resources (Rs 24 lakhs). The US collaborator, Universal Electric, who already holds 46 per cent of the existing paid up capital, will be offered equity shares of Rs 3 lakhs for subscription. This would reduce its interest in the enlarged equity capital to 33.6 per cent. The entire public issue is underwritten. The company, incorporated in 1963 commenced production of motors in 1965. During the past 5 years, its sales expanded from Rs 43 lakhs to Rs 205 lakhs and fixed assets from Rs 39 lakhs to Rs 10 lakhs. The management expects substantial increases in sales and earnings after the new projects have been implemented and it has held out promise of a 10 per cent dividend for the year ending September 1972. No dividend has been declared so far, as profits have been ploughed back to improve the company's financial position. Dividends for the next 3 or 4 years are expected to be exempt from tax.

Dharamsi Morarji

THE Research and Development wing of Dharamsi Morarji has received the Sir P C Ray Award in 1971 from the Indian Chemical Manufacturers' Association.

The 300-tonnes per day sulphuric acid plant designed by the R and D was the largest of its kind in Asia at the time of its commissioning in 1964. Because it was fully designed, fabricated and commissioned by Dharamsi Morarji Chemical itself, the plant cost only Rs 65 lakhs as against the lowest foreign quotation received for it of 80 lakhs. Of the many special features of this plant, the most unique is the built-in system of heat recovery employed in this plant which makes it virtually independent of outside electric power. The saves an estimated power cost of Rs 1,200 per day, and makes it the ideal kind of sulphuric acid plant for all developing countries which face problems of power shortage.

Chlorosulphonic acid is also a product developed by the Dharamsi Morarji Chemical, entirely with their own knowhow and without any foreign help. Dharamsi Morarji Chemical's R and D department put out a process package which was converted into a producing plant, fabricated and erected by the Dharamsi Morarji Chemical's own technical and engineering staff.

A continuous process plant for the manufacture of sulphate of alumina is one of only two such in the world. This, too, was designed and fabricated by Dharamsi Morarji Chemical's own R and D wings.

The Week's Companies

(Rs in Lakhs)

	API		Indian Rayon		Mysore Kirloskar		Inchek Tyres	
	Latest Year 31-7-71	Last Year 31-7-70	Latest Year 30-6-71	Last Year 30-6-70	Latest Year 30-6-71	Last Year 30-6-70	Latest Year 30-6-71	Last Year 30-6-70
Paid-up capital	152	131	334	334	160	140	301	274
Reserves	143	117	76	70	232	204	27	27
Borrowings	429	378	202	227	243	234	416	426
of which Term borrowings	79	86	148	189	40	27	222	225
Gross fixed assets	604	554	671	600	603	523	523	511
Net fixed assets	387	370	587	577	245	208	370	392
Investments	—	—	—	—	17	10	—	—
Current liabilities	470	364	94	53	177	174	111	90
Current assets	807	625	114	101	552	534	384	386
Stocks	495	383	94	91	324	282	277	261
Book debts	205	178	17	9	223	250	71	79
Net sales	1213	1092	345	275	622	560	754	666
Other income	16	18	3	4	20	15	14	7
Raw material costs	772	704	113	88	82	80	547	558
Wages	193	178	37	32	144	124	98	69
Interest	45	37	25	23	22	16	29	28
Gross profit(+)/loss(—)	88	54	68	50	127	112	—18	1
Depreciation provision	39	32	61*	22*	46	40	45	40
Tax provision	10	1	—	—	36	30	—	—
Net profit(+)/loss(—)	39	21	—	—	45	42	—63	—39
Development rebate provision	22	7	7	28	11	7	—	—
Transfer to reserves	2	2	—	—	19	22	—	—
Dividend								
Amount	E11 P4	E8 P4	—	—	F12 P3	E10 P3	—	—
Rate (per cent)	E10 P7.8&9.3	E10 P7.8&9.3	—	—	E10 P8&9.3	E10 P8&9.3	—	—
Cover (times)	1.18	1.25	—	—	2.58	3.20	—	—
Ratios (per cent)								
Gross profit/sales	7.23	4.94	19.71	18.18	24.18	20.00	—	0.15
Net profit/capital employed	5.38	3.35	—	—	7.08	7.27	—	—
Inventories/sales	40.81	35.07	27.25	33.09	52.09	50.36	36.74	39.19
Wages/sales	15.91	16.30	10.72	11.64	23.15	22.14	13.00	10.39

Depreciation upto 1964-65.

A Time for Humility

Contributed

THE avid dissectors of the class character of a nation may disagree, but, for the people of Bangla Desh, liberation from Pakistani colonial subjugation is a great qualitative step forward even if one were to consider the matter in terms of broad historical sweeps. The emotions which an expatriate from that land experiences at this juncture are peculiarly mixed. Joy wells up, joy at the magnificence of the grit demonstrated by practically the entire Bengali populace. But there is also a feeling of guilt and shame. What share can an expatriate pretend to have of this glory, what right does he have to lay claim on a portion of the pride which, from now on, will be the heritage of every citizen of Bangla Desh?

Atmosphere of Euphoria

From the sidelines, the expatriate can only plead for a temporisation of emotions. Let there be pride; let not one, at the same time, discard humility. It is not always easy — and more so in an atmosphere of euphoria — to separate the wheat of reality from the chaff of presumptions. The record must however be kept straight. The emancipation of Bangla Desh has been achieved by the people there, and by themselves. The Indian troops have of course provided the *coup de grace* to the Pakistani collapse; if, on the threshhold, this external support were not available, the struggle would no doubt have been elongated, and the saga of the last nine months would conceivably have stretched into one of nineteen months or, for that matter, ninety. But let there be no imperious illusions. No amount of induction of alien forces could have brought about the present denouement unless the Bengali population as a whole were determined to give the historical process a particular turn. A fortnight's dovetailing of effort is merely just that: it should not pretend to being more. To confuse the consequence with the cause, and the auxiliary elements with the central ones may be the prerogative in other seasons. To do so on the present occasion could be the genesis of many tragic mistakes in future.

What India has done is atonement for historical sin. The Indian National Congress in Bengal, as elsewhere, was a body dominated by the Hindu middle class. Go through the roster of Congress names during the entire first half of this century: it was a remarkable hegemony of high-caste Hindu representation. Professional groups such as medical and legal practitioners, the landed gentry, the up-and-coming civil servants, industrialists — each and all were represented in the Congress, and each and all were flexing the muscles of middle class Hindu might. Bengal had a clear preponderance of Muslims in its population, but they were nowhere in the picture. The Muslim League was a Johnny-come-lately, the two-nation theory was at work much earlier. The dichotomy between 'we' and 'they' was operational not only in relation to the British, but, much more stridently, *vis-a-vis* the socially deprived Muslims. In those days, the heady glory of the Hindu middle class had a solid economic content, based as it was upon the exploitation of the Muslim peasantry. Scarcely anybody in the Congress had the patience or the perspicacity to assess the emerging social problems from the other side of the barrier.

The Bengali *bhadralok* was much too busy lapping up the blessings of the Permanent Settlement. The model they clung to was conventional. Squeeze the peasantry, indulge in the most horrendous forms of rack-renting, invest the surplus value thus extracted on a liberal education for your children, turning them into doctors, teachers and civil servants, that is, into further instrumentalities for exploiting the poor. Exploitation was pervasive. A Hindu middle class household of even genuinely modest circumstances would have a small plot of land in the country, operated by tenants or sub-tenants. It could be paddy that was being sown, or pulses, or mustard, or jute; or perhaps the land had been turned into a mango grove. The single link between the Bengali *bhadralok* and his land would be his annual visit to the village for the exclusive purpose of collecting rent, in cash or in kind, and often that too, only when the poor tenant had failed to remit it. Absentee landlords were supplemented by that other species, namely, those who stayed in the villages and used the sweated labour of the Muslim — and Harijan — lower peasantry to force the land to yield its bounty.

Fertile lands invoke fertility of human populations; alternately, they promote migration from elsewhere. Through either process, the rich alluvial land of East Bengal became overpopulated and the tribe of Bengali agricultural labourers multiplied. Over time, the burden of an excessive population led to a shrinkage in the size of the plot as well as in the productivity per acre. Since the *bhadralok* was nonetheless insistent on protecting the absolute level of his rent, the relative share of the toiling peasant could only go down. The Marxian hypothesis regarding the progressive immiserisation of labour came to full bloom in the Bengal countryside.

This was compounded by the other exploitation which went with the marketing of the golden fibre, jute. Like the locusts, or the Almighty in Tagore's lyrics, the *farias* would come, come, ever come: they were truly men of all seasons. They knew how to tilt the terms of trade permanently against the tenant-cultivators, they knew all the tricks in the trade, from shortchanging to crass brow-beating. They would combine their operations with money lending and ensure that the jute was disposed of in the early part of the season by the poor peasant, bereft of any holding power, at rock bottom prices. The processing of jute fetched huge surpluses in foreign markets. Not even a bare fraction of this profit would ever percolate down to the Muslim peasantry.

Exploitation begets discontent; discontent sooner or later reaches the nodal point of explosion. The smartness of the Muslim League and the pigheadedness of the Congress combined to hasten this nodality. Spurned by the Congress, the Muslim peasantry were caught up by the slogan-mongering of the League; from there, the lure of Pakistan was but a short step away.

New Exploiters for Old

They switched one set of exploiters for another set; in terms of class composition, the difference between the two groups of exploiters was non-existent. But this is hind-sight. The Bengal peasantry had no way of knowing it at the time; for nearly a quarter of a century, they have paid for this hiatus in knowledge. Still, without having gone through the fire of the experience of the past twenty-odd years, the people of Bangla Desh would have never arrived where they have arrived today. They have discovered, on their own, the concept and content of nationalism and of its economic basis. They have learnt the cost-benefit calculations in the shedding of blood. In the end, the glory has been, and is, theirs, and exclusively so.

Indians can have no part of this glory, only the faint satisfaction that they have made amends for the folly of the sleepy-eyed, shortsighted, bigoted Congress leadership of the past. For at least one group of Indian citizens, even this little recompense will not be there. This is the group made up of the offspring of the Bengali Babus who had crossed over from what was then East Pakistan, in trickles and occasional spurts, through the late forties, and the fifties and sixties. Deprived of their inheritance of land in East Bengal, they now constitute a segment of West Bengal's vast limbo of the proletariat. For them, the emergence of Bangla Desh is a phenomenon which invokes no rapture. On the pavements of Calcutta, in assorted railway yards, in vast stretches of refugee colonies, they have experienced in the course of the past twenty-five years, the excruciatingly painful historical process of getting declassed. It has been a story full of squalor, anger and bloodshed. And despite the happenings across the border, the story is not yet ended.

Keep the Farias Out

The new refugees—the close to ten million who had come since last April —would perhaps now wind their way once more to East Bengal. But for the five million and odd who migrated between 1947 and 1970 and their children, there is no road back. They are totally disinherited. They are disinherited even from their class. There can be no question of their being accommodated in Bangla Desh, which has its own proletariat and its own social processes at work. Nor will they themselves perhaps ever want to go back either. Perhaps, they do not even retain the memory of their East Bengal ancestry and of their landed heritage. Shed of their role as exploiters, and now very much belonging to the army of the exploited, they will remain an integral part of the Indian tragedy as originally enacted.

But what about that other erstwhile group of exploiters? After all, the tribe of *farias*—and their patrons—have survived and prospered on this side of the border. In the intervening quarter of a century, they were shut out of East Bengal. They have however been biding their time. Exploiters, like revolutionaries, abhor national political barriers. The *farias*, who were wont to use the instrumentality of jute for playing the fleecing game, would like nothing better than to infiltrate their way back into Bangla Desh: the gleam in their eyes is altogether transparent. It would be outrageous if these people succeed. The reconstruction of Bangla Desh is on everybody's agenda, including the Government of India's; envoys have started shuffling between Delhi and Dacca. If not a sense of decency, at least an elementary sense of self-preservation would suggest that *farias* are allowed no part in this reconstruction. The responsibility for ensuring this belongs as much to New Delhi as to anybody else. It would be tragic to goad the East Bengalis into organising a third revolution before the second is quite over.

FROM OUR CORRESPONDENTS

Indo-US Relations: The War and After

(From a Special Correspondent)

A MAJOR consequence of the Indo-Pakistani war and the year-long crisis over Bangla Desh has been the momentum it has given to the deterioration of relations between the governments of India and the US. As certain degree of coolness had already entered Indo-American exchanges during the Johnson administration. In the past year or so this has actually turned into hostility, often expressed without any diplomatic guises.

It is tempting to explain this by attributing it to the short-sightedness of the present American administration or to the personal whims or sense of pique or malice of senior American officials, including President Nixon himself. Admittedly, personal idiosyncrasies of individuals in power do play some role in shaping the affairs of nations. One may also go along with the unflattering estimate, now current in this country, of the qualities of President Nixon and his chief associates. But it would be simplistic, and potentially risky, to assume that all the trouble between India and the US is due to that. In that case all one would have to do would be to wait out the remaining year, or at worst five more years, of the Nixon administration.

Never Very Friendly

It is noteworthy that at no time during the past 25 years have relations between India and the US been marked by a high degree of mutual confidence. True, there were occasional bouts of mutual back-slapping between the "world's greatest democracy" and the "world's largest democracy" and also a more enduring collaboration in economic development and famine relief in India. But by and large relations between the two countries have been marked by holier-than-thou attitudes on both sides, mutual indifference and worse. Even the short period of friendliness in the last year of the Eisenhower administration and during the Kennedy administration was a manifestation of mutual goodwill and was not based upon any identity of views or objectives in international affairs.

As a matter of fact, there has never been an identity of views between the US and Indian governments on any major problem since Indian Independence. (The Anglo-French-Israeli aggression against Egypt of 1956 was perhaps one exception.) This has been so from the time of signing of the Japanese peace treaty after the war (India and Indonesia were the only two countries which did not sign the draft prepared by Dulles) to the latest American bombing in Vietnam. On most of the issues the two countries have found themselves holding differing, sometimes contrary, views.

Thus American foreign policy during the fifties was dominated by the thought of containing the Soviet Union and the ungodly communists of the Sino-Soviet bloc, as it was seen then. In the sixties, on the other hand, the major American preoccupation was the war in Vietnam and how to win it. In both these respects, the Indian position was entirely at variance with the American one. In other words, while Nixon may have supplied his own special brand of abrasiveness to Indo-American relations during the past few years, he has hardly changed the basic pattern.

There is a popular belief that two democratic countries get along swimmingly with each other, or at least aught to. (Wasn't something similar

said about two socialist countries also at one time? The Soviet Union and China proved that anyway!) As a matter of fact, the Indian government seems to get along well with Egypt or Yugoslavia, neither particularly democratic.

American Insensitiveness

If the results of the mid-term poll, in of the post-Rooseveltian times, that successive American administrations have been consistently insensitive to the national or democratic, let alone socialistic, aspirations of other peoples. This was so not only in case of their attitude towards Asian or African nations but also towards the European countries — towards de Gaulle, for example or towards the democratic aspirations of the Greeks today. For some reason, even the smartest American professors, at least while doing their stint in the backrooms of the White House, always seem to miscalculate the strength of nationalism or the urge for democracy in other parts of the world. This would explain not only the American attitude in Vietnam but also in Bangla Desh more recently.

Perhaps as a super power, it finds it unnecessary or at least unprofitable to take into account these forces of nationalism and democracy. In fact, it would seem that even now, the official American thinking is dominated by the standard concepts of *real-politik;* by "spheres of influence", by "balance of power", by "global strategy" and such other catch-words of the cold war. Hence it would not be surprising if the Nixon administration actually believed its official line that the Indian actions before and during the recent war were directly influenced by the Soviet Union. For Nixon and his advisers, India is irretrievably in the Soviet camp already.

The war in Vietnam is likely to continue to dominate American thinking in the next few years, with one difference. Almost everyone in the US would like to see the war ended. The administration cannot ignore this public feeling indefinitely; hence we see President Nixon trying to establish a *modus vivendi* with China — and in a hurry to do so, 1972 being an election year — so that he can, with Chinese help, end direct American involvement in the war without loss of face. One may expect to see, in the next few months, strenuous American efforts to woo the Chinese and to persuade them to sell the North Vietnamese down the river. A part of the price to be paid for this would be American help or at least connivance in keeping India weak and divided. Since, according to present American thinking, a strong India can only benefit the Soviet Union, this suits their purpose also. With a frustrated army and fire-eating politicians in Pakistan, they have a handy tool for creating trouble for India any time. One may also expect to see American warships more often in the Indian Ocean. Already, there are reports of a projected American base in Bahrain.

In short, a strong India, dominating its neighbours, would definitely not suit the US global strategy. It would be unrealistic, therefore, to expect any improvement in Indo-American relations in the near future. In fact, with the Indian government also trying to work its way up towards a big power status of sorts, the situation may be expected to deteriorate further. Already, Indira Gandhi has urged others to see the realities of the situation, the implication being that we also matter. By deciding to exchange ambassadors with North Vietnam, the Indian government has not just given a needless affront to the US but has served notice of the more active role it intends to play in the affairs of the region. This cannot but exacerbate further the relations between India and the US.

India as Big Power

This posturing on the part of India has one catch though, because of which other countries may still not count India for much. A factor in the generally contemptuous American attitude towards India is the firm belief that pretty soon the Indian government will come supplicating for aid in some form or the other. And it has to be admitted that even now a significant section of our ruling political or bureaucratic elite would rather run to Washington to arrange a new loan or sign an aid agreement than face up firmly to politically inconvenient economic decisions at home. With such a leadership, for India to pose as a big power would be ludicrous.

LUCKNOW

Status Quo Stabilised

AS soon as Chief Minister Tripathi announced that there would be no elections in UP because the Congress already had a stable majority, the reaction of the average Congress(O) legislator was to join the Congress(R) and get stabilised until the next elections. The defecting legislators, including some top leaders of the Congress(O), suddenly discovered in Indira Gandhi a messiah of the downtrodden and declared that after the mid-term elections to Parliament and the Supreme Court ruling on the question of election symbols there was no doubt as to which was the real Congress.

The fact of the matter is that the Congress(R) was in minority in the Assembly after the last elections. It did not have even 100 MLAs. With Indira Gandhi entrenching herself at the Centre, there were defections and the Congress(R) secured a majority and formed the Ministry. Understandably, the majority of the Congress MLAs are neither progressive nor socialist. They believe in the economics and politics of the *status quo* and the *status quo* was, to them, best guaranteed by having no elections at the moment. They have been, therefore, keen to get the elections postponed. Apart from the argument of the Congress having a stable majority, it has been suggested that a mid-term poll would call for vast resources in men and material which would be better used by the Congress in states where the party's majority was marginal or precarious. The logic of the argument can be reversed; UP's turn may come when elections in the other states have been completed.

There are very good political reasons for having a mid-term poll in UP, in case Indira Gandhi wants her home state to have a serious go at implementing her radical economic policies which, in the context of the Indian Constitution, have to be implemented largely at the state level. The Congress(R) in UP has so far failed to implement its pledge to lower the rural land ceiling. It is common knowledge that it has not done so under pressure of the kulaks who have come forward in a big way now to contribute for the National Defence Fund. A private (Congress-R) member's bill on rural land ceiling, fixing it at 20 acres (including orchards) in irrigated areas and 30 acres in non-irrigated areas, was withdrawn on the assurance of the Revenue Minister that the government was committed to moving a bill on the subject in the coming budget session. Explaining the reasons of the delay the Revenue Minister informed the House that the government was waiting for the finalisation of the urban property ceiling bill which was under its consideration. A Congress(O)

member pointed out that, while he would like a ceiling of 6.25 acres in rural areas, since most Congress(R) legislators owned more than 25 acres of land, the bill would not be passed. Whatever the level at which the state government's proposed bill fixes the ceiling on agricultural land, it may be taken for granted that no surplus land would be available for redistribution among the landless. There has been so much of talk of lowering the ceiling on land that practically all the cultivators have transferred their lands not only to their kith and kin, but also to dependable friends and farm servants.

The state government has also not been able to redeem its promise to nationalise the sugar industry. The social and political pressures operating against the nationalisation of the sugar industry have been discussed in these columns. The Congress(O) government had sought refuge in the excuse that the power of nationalisation vested in the Union government. The Congress(R) had then argued that the state government could nationalise the sugar industry. Now the Congress(R) Chief Minister declares that the amendment of the Constitution has cleared the way for the nationalisation of the sugar industry by the Centre!

Rihand Power

The Congress(R) has a large majority in the legislature but, apart from routine matters, no bills have been prepared for major economic reforms. And yet the Assembly must meet for a few days at least, because the MLAs want DA and TA. Therefore, some business has to be found and this was provided by the liberation of Bangla Desh. Press reports indicate that it turned out to be a full-fledged debate on the external and defence policies of the Government of India. Charan Singh argued that, for strategic reasons, India should have attacked Pakistan in April, and that no ceasefire should have been offered in the west till Pakistan sued for peace. This was contested by Congress(R) members who argued that such an adventurist policy would have isolated India from world public opinion, provided an opportunity for America and China to intervene and even alienated the sympathies of the Soviet Union.

For the last ten years or so the UP government has been under fire for giving Rihand power to the Birlas for their aluminium factory in eastern UP, where the eradication of poverty is surely connected with the availability of cheap power. The Birlas have now organised a lobby for getting additional power for their factory, but thanks to public opposition the state government has for the time being declined to give the Birlas any additional power, presumably on the plea that Birlas have to pay arrears of Rs 14 lakhs. But why should not these arrears be realised as if they were arrears of land revenue, by attaching and auctioning the property of the party concerned?

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BANGALORE

Old Men in New Bottles

Susheela Subrahmanya

THE Syndicate is dead in Mysore, for all practical purposes. Congress(O), which is making a bid to come back to power in the state, is no longer noseled by the old veterans of Jantar Mantar. At any rate, the election strategy of Congress(O) in Mysore is being worked out not in New Delhi but in the drawing rooms of younger leaders here. That is a saving grace.

The decision of the general body of Congress(O) in Mysore not to cut adrift from the parent body and form a regional party is considered as a minor concession to the old guard. But it is hardly likely to affect the prospects of Congress(O) at the March poll, one way or another. For all practical purposes, the Mysore unit is functioning as a regional party, brooking no interference from the party bosses. Then why quibble about names?

Veerendra Patil is going to the polls with a two-pronged strategy. First, he wants to impress on the voters that a good many "socialistic" measures were put through during his regime and that his party is no less socialistic than Congress(R) which mentions slogans. Second, he wants to impress on the electorate that Mysore's interests will be safer in the hands of his party than in the hands of Congress(R) which is too careful not to displease Indira Gandhi. If the results of the mid-term poll, in which the party was completely routed, are any indication one can say that Patil's strategy may not yield the desired results. Nevertheless, Patil is determined to give a fight. The leaders of Congress(O) are also hoping that they can cash in on the dissatisfaction that would be caused in the process of denial of Congress(R) tickets to party aspirants.

After all, there are only 216 Assembly seats to contest while the aspirants number over 1,000. If the partymen observe political norms, they will not walk over to the other camp merely on the plea of denial of tickets, but Congress(O) which faces a dearth of suitable candidates, may not be too averse to issuing the party tickets to defectors from the other camp. The snag is that neither party has any time for such manoeuvres.

D Devaraj Urs, head of the PCC(R), is the man to watch. So far, he has been able to out-manoeuvre his rivals but it remains to be seen whether he will retain the initiative after the elections. For one thing, he does not have a free hand in issuing party tickets to candidates. Old hands like Siddaveerappa also have a say in the choice of candidates. Besides, considerable pressure will be brought to bear on the Central Election Committee to make additions or deletions to the list. Central Ministers hailing from Mysore and the state MPs can always play politics at this stage. The state party has already flouted the one-third rule handed down by the CEC on the plea that there are no sitting members in Mysore since the Assembly stands dissolved. The younger elements in the party who set much store by Urs's leadership are plainly not convinced. They argue that this is a fine excuse to smuggle in the old degarde who have no belief in the party's ideals.

It does not require a crystal-gazer to predict a landslide victory for Congress(R) in the March elections. But no one is in a position to predict who will become the next Chief Minister. Devaraj Urs, who enjoys the confidence of the Prime Minister, is a hot favourite but much depends on the complexion and composition of the Legislature Congress Party. The fact is, Urs does not belong to the majority community. The Vokkaligas of old Mysore may support him but the Lingayats who dominate north Karnatak may have other ideas. Those who believe in personal equations point out, tongue in cheek, that since Indira Gandhi has a particular aversion for Lingayats (Nijalingappa is a Lingayat) she may recommend a non-Lingayat for the Chief Ministership. Not many agree with this line of reasoning.

BIHAR

Congress Hopes and Fears

THOUGH it came as no surprise, the dissolution of the Bihar Assembly caused a flutter in the opposition dovecots. With all the people singing panegyrics of Indira Gandhi, they were clearly overcome by the fear of being swamped by the Congress juggernaut.

Even before Bhola Paswan Shastri had tendered the resignation of his seven-month-old Pragatisheel Vidhayak Dal ministry, most of the opposition leaders broke into a volley of protests against what they called "an action under duress". With a penchant for the dramatic, a legislator of the Socialist Party filed a writ petition in the Patna High Court praying that the Governor be restrained from acting on the "illegal and unconstitutional" advice of the Chief Minister, Bhola Paswan Shastri.

Not a Free Agent

Obviously, Shastri was not a free agent himself, even though he had often boasted of being "no puppet" of the Congress. An Independent member heading a ragbag coalition dominated by the faction-ridden Congress, Shastri was a harried man. So harried that he had never even attempted to get a grip over the ministry which had been kept going only through the favourite gambit of stretching the date for the Assembly session. Since it could not be stretched any further, Shastri had no choice but to have the Assembly called on December 30 — the last date of the prescribed maximum six-month recess.

But nearly a week before the Assembly was to meet, Bhola Paswan Shastri was summoned to New Delhi and told by the Congress High Command that he was to return to Patna and not only submit his resignation but also advise the Governor, D K Barooah, to dissolve the Assembly. He was left no choice. Shastri returned to Patna, somewhat crestfallen, convened an emergency meeting of the Cabinet and having done his bit to assuage the temper of his colleagues, rushed to the Raj Bhawan to hand in his resignation — his third from chief ministership in less than four years.

His resignation and the immediate dissolution of the Assembly let off vehement protests. The High Court had of course rejected the Socialist member's writ petition but there were other political leaders and legal pundits who quoted chapter and verse to show that the Governor's action had been a "serious constitutional error". In a vitriolic statement, one constitutional lawyer said, "After the Governor had summoned the House to meet under Article 174(1) of the Constitution, the members had acquired a right to meet, and no order of the Governor under any provision of the Constitution could prevent the House from meeting on the last date of the prescribed six-month recess". That date, however, passed without the members asserting to meet and flocking to a Tennis Court like the famous deputies of revolutionary France.

But like the Bourbons the Congress High Command cared little for constitutional niceties. Now was the time to mop up the Assembly and that was all that mattered. And they certainly had one good reason for their action: the chronic instability in Bihar. The state had bungled through nine coalitions since 1967 and any more of it could be ruinous. But whether Bihar had even now reached the end of its travail was another matter.

Sick and Corrupt

The Congress in Delhi is full of hope. While the Bangla Desh euphoria lasts it will ride the high tide. But the Congress in Bihar is not the same as the Congress in Delhi. Here it is sick and corrupt to the core. It is a house divided against itself. With the return of some strength, the old evil of inner feud has once again reasserted itself in the party in a big way. The warring factions in the Bihar Congress have for months been at one another's throat. The two erstwhile comrades and bigwigs of the party in Bihar, L N Mishra, Union Minister for Foreign Affairs, and Ramlakhan Singh Yadav fell out several months ago over the presidentship of the Bihar Pradesh Congress Committee. While Yadav wanted the post for himself, L N Mishra wanted a more trustworthy man to head the State Congress organisation, somebody who would agree to be his rubber stamp. And Yadav, he thought, would go out of his control once he had the power which he had been seeking so frantically ever since he fell from grace following the Aiyar Commission inquiry. Mishra finally had his way and his nominee Vidyakar Kavi was installed as the BPCC chief, much to the chagrin of Yadav.

Since then the battle lines in the party have become clearer. In November last some prominent members of the party, including former Chief Minister Daroga Prasad Rai, began a concerted campaign for a reconstitution of the ministry so that the Congress nominees in it might be selected afresh. Claiming the support of the majority of party legislators, Daroga Prasad Rai said that the continuance of the ministry "in the present form would gravely weaken the Congress, create complications and undermine the efforts for the reorganisation and revitalisation of the organisation in the State". This was clearly a move directed against one faction of the party which had dominance in the Shastri ministry. They not only demanded a reconstitution of the ministry but sent a long memorandum to Indira Gandhi recounting all the alleged sins of the Congress Ministers which had tarnished the party's image.

But even these Congress legislators who were openly campaigning against their partymen in the ministry were not prepared for a dissolution of the Assembly and fresh elections, not to speak of those who were ministers. For, while Indira Gandhi and other Congress leaders in Delhi may be confident of sweeping the polls in the state on the wave of the new wind blowing in their favour, there are many Congressmen in this state who fear that the Assembly elections may not be quite the same story as the parliamentary elections. Local factors, they fear, may after all assert themselves once again as in 1967 and 1969, though perhaps not with such disastrous results as in those elections.

Caste Might Play a Big Role

There are not many politicians, for instance, who would agree with the opinion expressed by some commentators that for once caste was unlikely to play a big role in the forthcoming elections. In fact there are people who assert that caste will play an even bigger role than before. And here, there are factors which would appear to be even more unfavourable for the Congress than in the mid-term elections of 1969. At that point of time, the Yadavas, who form a big chunk of the state's electorate (the largest single caste group in the state with about 11 per cent of the total population) were united and by and large voted *en bloc*. This time, however, the Yadavas are badly split up. Then again, the Brahmins and Yadavas were united in 1969 whereas now they are divided in rival camps.

Yet another big question for the Congress this time is: How will the Muslims behave? The Muslims, with over 12 per cent of the total population, are known to vote more or less *en bloc* and both in 1969 and in the parliamentary elections they undoubtedly voted overwhelmingly for the Congress. This time, however, in the wake of what has happened in Bangla Desh and to the so-called Bihari Muslims there, they are considered an uncertain element, to say the least.

Political Consolidation

There are, however, plus points for the Congress which could counteract these disadvantages. First, the opposition parties are shaken and jittery. They are still unable to decide what they are going to tell the electorate. True, there are some local issues, there are the sins and follies of the Congress Ministers in the Shastri government. There is the recent tragedy in a village of Purnea district where at least 14 Santhal sharecroppers were killed by the hirelings of local feudal lords known to have close connections with the Congress-dominated ministry of Bhola Paswan Shastri. And yet the mortal fear of the "Indira wave" has driven the opposition parties into disarray. Some have already jumped on the Congress bandwagon. Among them were some members of the Socialist party and the six-member Bharatiya Kranti Dal. It is uncertain for how long, though, for it has already been announced by the Congress office that no tickets would be given to those who had just joined the party.

Another factor which the Congress could, and perhaps will, turn to its advantage is the collapse of the Janta Party which had 12 members in the dissolved Assembly. Ever since the death of the Raja of Ramgarh, who was its life and soul, the Janta Party has been withering away. Now that it has finally merged with the Jan Sangh and lost its identity, the jungle district of Hazaribagh which used to be the party's stronghold is there for the taking.

While it is too soon to hazard any guesses of the election's outcome, specially because the parties are still in the process of making poll adjustments a significant trend is worth noting. The process of political fragmentation which had become so rapid after 1967 seems to be gradually reversing itself. Not only the BKD and the Janta Party have joined the Congress and the Jan Sangh respectively, some of the other smaller groups too are coalescing with bigger units. One faction of the Soshit Dal, led by former Chief Minister B P Mandal, has announced its decision to go back to the Socialist Party. The other faction of the Soshit Dal, led by Jagdeo Prasad, has offered to have electoral adjustments with the Socialist Party. Whether this process is only temporary and fragmentation will start all over again after the elections is hard to say.

NEPAL

Change by Example

AFTER a year, the name of Bisheswar Prasad Koirala is once again a presence in Singhdarbar and Narainhitti. It is true that BP's influence has always been palpable though unacknowledged, but the turn of events in Bangla Desh has left a deep impression in the minds of many people in Nepal. And, as always, B P Koirala appears as the leader who might show the way. Indeed, Bangla Desh's 'freedom' seems to have had the same popular impact that the British withdrawal from the Indian subcontinent had over 24 years ago. This fact cannot have escaped the attention of Singhdarbar and the Narainhitti. It is not surprising, therefore, that they seem all out now to propagate the anti-Indian pronouncements of the Chinese and the Americans and are supportive of Bhutto's moves. It was consistent too with the regime's balancing exercise between India and China that the Nepalese representative did not vote for India in the UN, and that even though neighbouring Bhutan has recognised the Jana Ganatantrik Bangla Desh government Nepal has not. The official fear is not merely that people, taking their cue from what happened in Bangla Desh, may feel emboldened to think of similar struggles nearer home, but that Koirala by his statement in New Delhi some three months ago, advocating armed struggle in Nepal for liberation, may actually serve as a rallying point for such aspirations.

Savarna Hindu

Though the present ruling Shah dynasty moved into Nepal from Rajasthan some 600 years ago, they still consider themselves 'Savarna Hindu', destined to rule the gentle Nepali people in their very feudal way. However, it is not this ethnic differentiation of the rulers from the ruled that has governed policy. If the Nepali people are generally gentle, starving and poor today, they were so also under the ancient regime of the hated Ranas—who too, incidentally, were of Indian origin. It is their continued impoverishment that has led the Nepalese in search of work and bread in India, Burma, Thailand, Singapore, Malaya, Hong Kong and even Britain. Nepali soldiers, darbans, porters, etc, are well known. The point is that the present 'Panchayati Raj' has made little difference to the old kingdom. The essentially *status quo* rule continues, though with palliatives to accommodate a changing neighbourhood and an increasingly questioning university population. Panchayati Raj helps, in fact, to minimise change.

Democracy Useless

The 'historic revolution' of 1950 against the Ranas was actually an Indian-sponsored revolt, re-installing the late King Tribhuvan Vir Vikram Shah Deva, 'sovereign king', who till then had been virtual prisoner of the Ranas within the four walls of Narainhitti. The reactionary Savarna Hindus soon claimed that the Indian-sponsored democracy had no relevance to Nepal and that a benevolent royalty could do Nepal far more good. In fact, the royalty did not need to waste time trying to 'sabotage' democracy from within or without. The process was relatively simple and was started in King Tribhuvan's reign; it was evident in the royal preference of Matrika Parasad Koirala over B P Koirala as leader of the 'post-revolution' Nepal. With Sardar Patel's death the royalty could feel surer about being left a little more to its own devices by India. Kathmandu valley celebrated Dipawali that year.

While King Tribhuvan was a little cautious in his manoeuvres, his successor, King Mahendra, was more direct. He not only made his intentions clear in 1960 by dismissing B P Koirala's government—the first-ever elected government in Nepal—but made sure that India's influence in Nepal could be counteracted, by inviting China to 'assist' Nepal. He duly visited Peking, and China soon undertook construction of the Kodari-Kathmandu and Kathmandu-Pokhara road of strategic advantage to itself. The king had reason to be worried. There was at the time an armed struggle against his

regime launched by the outlawed Nepali Congress of B P Koirala under the overall command of General Subarna Shamsher.

Reports have it that the Chinese are now going to build another strategic road linking Mustang and Muktinath with Pokhara. Nepali bureaucrats do not fail to mention that Chinese aid is easier to manage: there is not the same bureaucratic red-tape that is associated with Indian aid.

It has not, of course, been all one-sided. Mao's Red books and Mao badges have become available to Nepali youth. Processions and demonstrations have frequently shouted slogans such as 'Mao Zindabad'. By contrast, India has been condemned outright every time. The changes in Nepali society, which the ruling clique has been keen to choke off, may thus yet come in by the backdoor despite their best efforts.

If the regime in Nepal has been fighting shy of developing Nepali industrially, it seems to be out of the fear that a viable industrial sector in the kingdom would mean a base of industrial labour which might herald conscious class struggle. Today, though there is job-hunger, the privileges of the royalty and the aid- and revenue-managing bureaucracy are not sharply questioned. Nepal has, therefore, taken the soft option of importing goods from other countries, labelling them 'Made in Nepal' and re-exporting them. For carrying out such business, Nepal has even relied on the notorious business community of Indian origin with its network in Malaya, Burma, Ceylon, Kenya, and Tanzania. They are settled in the Nepalese district of the Terai, bordering on Bihar and Uttar Pradesh and even in the capital city of Kathmandu. It is the talk of the town in the Terai and in Kathmandu that these neo-Nepali industrialists are in connivance with the secretariat. They have influence not only in the secretariat and over the mass media but also over the government and the leaders of the so-called Panchayati Vyavastha which now and then verbally slanders 'Indian imperialism'. With their close liaison with smugglers and blackmarketeers in New Delhi, Bombay, and Calcutta, it is this business community which also briefs Nepal's ruling circles about the loopholes in the Indian law and administration, suggesting techniques to take advantage of them.

With the Indian threat made to seem so imminent, it is possible also to successfully emphasise the danger from democracy in the circumstances. Therefore, whoever is for democracy is automatically branded as an enemy of the nation, and is either put behind bars or forced to flee the kingdom. This is being done not only on the political front, but also on the literary front. No literature with the slightest smell of democracy is allowed to see the light of day, even as anti-Indian and anti-democratic works are hailed as models of progressivism and nationalism.

Where, soon after Independence national democratic influences were strong among a section of the elite in Nepal, with some leaders, *viz*, Bisheswar Prasad Koirala, Ganeshman Singh, General Subarna Shamsher, Surya Prasad Upadhya, Kesharjung Manjhi, Dilli Raman Regmi, Pushpalal, Manmohan Adhikari, Tanka Prasad Acharya, Rampujan Tiwari, Dharmaratna Yami, Naradmuni Thulung, K I Singh, and Krishna Prasad Bhattarai, in the political field, today these people are either behind bars or in exile—or bought over to fit into the docile Panchayati Vyavastha. What is worse is that the whole institutional system ensures that no second-rank leadership of any consequence can be bred.

Although New Delhi stands committed to maintaining the *status quo* in the Himalayas, it is possible that conditions will gradually become frustrating enough in the kingdom to radicalise the new generations and make them demand a more just society—politically as well as economically. China's presence in the kingdom's life cannot be without its own message. It may be that it will be B P Koirala who will represent and spearhead this movement initially. For, as of now, though last September official Kathmandu furiously questioned Koirala's credentials as 'Nepal's representative' at the international convention on Bangla Desh in Delhi, there is no other leader who can bridge the gap between past and future and symbolise the aspirations of the emerging Nepal.

SINGAPORE

Mirage of Neutral Southeast Asia

Harish Chandola

THE Malaysia-initiated proposal to create a neutralised southeast Asia, free from interference of outside powers, has run into some initial problems. The Foreign Ministers of the Association of South-East Asian Nations (ASEAN) — Indonesia, Malaysia, Philippines, Singapore and Thailand—had at their meeting in Kuala Lumpur at the end of November last proposed to create a neutralised southeast Asia (a zone of "peace, freedom and neutrality") with the help of other countries of the region. At that meeting it was decided to approach other countries (Burma, Laos, Cambodia and the two Vietnams) to secure their support for the proposal. A committee of the Secretaries-General of the five ASEAN countries had been set up to initiate contacts with leaders of other southeast Asian countries. Later leaders of China, Russia and the United States were to be contacted to provide guarantees that they would not interfere in the internal affairs of the region.

Opposition to Proposal

But hardly a week had passed after the issuing of the Kuala Lumpur Declaration when the South Vietnam President, Nguyen Van Thieu, announced his opposition to the proposal. Early in December, Prince Sihanouk of Cambodia declared in Peking his opposition to the proposal, which he thought was intended to provide a cover "for US aggression" in this region.

The India-Pakistan conflict was certainly a setback to ASEAN attempts. But the birth of Bangla Desh has introduced a new note. The Personal Representative of the Bangla Desh President to countries of Southeast Asia, K K Panni, said in Singapore on December 19 that Bangla Desh was a southeast Asian nation and not a south Asian nation (like India and Pakistan) and it therefore might apply for ASEAN membership. Of course, none of the ASEAN countries have yet recognised Bangla Desh and Panni, now visiting the capitals in this region, presenting written requests for the recognition of his country, has not been received by officials anywhere. (Panni used to be the Pakistan Ambassador to the Philippines until August this year.)

The question raised earlier was: what does the ASEAN proposal of a neutralised zone mean? How could countries which themselves are members of defence pacts with foreign powers (Philippines and Thailand of SEATO, and Malaysia and Singapore of the Five-Power Defence Arrangements), issue a call for the neutralisation of this region? There are US troops based in Thailand and the Philippines and Australian and New Zealand troops in Malaysia and Singapore. The presence of foreign troops has created tensions within these countries and mobilised public opinion and a popular struggle against such presence. This, in turn, has led to violence and counter-violence, particularly in Philippines and Thailand.

Chinese Guarantee?

While such situations obtain within these countries, how could China provide guarantees to them? The popular struggles against foreign presence in many countries are often misinterpreted as Chinese-supported attempts, even when China has nothing to do with them. China is therefore most unlikely to provide guarantees, which in effect will mean that it will undertake to interfere with popular movements against foreign presence in southeast Asian countries. Even if China wishes to, it really cannot control the popular movements outside its borders.

Malaysia is of course prepared to withdraw from the Five-Power Defence Arrangements it has signed with Britain, Australia, New Zealand and Singapore because these arrangements have no value for it now. Malaysia does not fear aggression from outside and has now a strong army and police force to take care of its internal problems. But it does not want to adopt a "holier than thou" attitude with its neighbours by becoming the first to opt out of the defence arrangements and then point an accusing finger at those that remain. It wants the defence arrangements to be ended by general consent of all southeast Asian countries. It wants all to realise that it is in their interest to free themselves of their ties with big powers and keep their options open on all matters concerning themselves.

Malaysia does not say that those countries which wish to create a neutralised southeast Asia, should first abrogate their agreements with big powers. It says that the countries should first accept the principle that they would like to have a neutralised southeast Asia. They could then find ways of achieving this objective, by getting out of treaties, etc, in the course of time.

To Singapore, this is like putting the cart before the horse. Singapore feels that the concept of a neutralised zone should first be made clear and its definition laid down. At the Kuala Lumpur meeting Singapore had various questions to ask. What kind of neutral status was the region seeking? Did it want to be like Switzerland, which, in order to guard its neutral position, had not joined the United Nations, or the European Economic Community or other such organisations. Will southeast Asia seek a status like that? Or will the region want the kind of guaranteed neutrality that was given to Laos at the Geneva Conference in 1962 by 14 countries? But one knows what happened to those guarantees. Does the region want a status like that of Cambodia? But there too one knows what happened to Prince Sihanouk's neutrality. Who is to decide who has violated the guarantees of neutrality, Singapore asked.

Of course, Singapore thinks that the way to keep the region free of big power politics is to invite them all in. Once in, they would neutralise the influence of each other, and at the same time the countries of the region will receive all the material benefits of their presence.

Indonesia has largely gone along with the Malaysian proposal, though there are doubts in its mind, similar to those of Singapore. But like Singapore, it does not say that the concept should first be made absolutely clear before others are asked to support it. It feels that the concept can be evolved collectively by all ASEAN members. But Indonesia is one with Singapore in wanting to know the attitude of China towards the proposal. It feels that the Chinese support to various liberation movements upsets peace and *status quo* in the region. It therefore is keen to know beforehand if China will guarantee that it will not support the movements in various countries, which are strictly the internal affairs of those countries.

Thailand is not much interested in external affairs now. The military regime which assumed power there in a coup in November last is busy at the moment in consolidating its position. It wants to get along with its neighbours by generally agreeing with whatever they decide together. It is with this kind of indifference that Thailand has supported the call for neutralisation, without paying much attention to its content and implications.

President Marcos of Philippines wants to establish himself in the eyes of his own people as an acknowledged Asian leader, and this he has sought to achieve by holding an Asian Summit in Manila, in which both communist and non-communist leaders of Asia would participate. His Foreign Secretary, General Carlos P Romulo, had therefore come to the Kuala Lumpur meeting with the sole purpose of seeking an agreement among ASEAN countries to get an Asian summit convened in Manila. But the proposal, towards which everyone else was cool, was opposed by Singapore, which felt that an Asian summit at this hour would only result in verbal fights and no agreements. It was, however, agreed to have an ASEAN summit in Manila early this year to keep President Marcos happy. The proposal to create a neutralised southeast Asia will be further discussed and clarified at that summit.

Malaysian Proposal

The Malaysian proposal by itself is very praiseworthy. It wants the countries of southeast Asia to get together and clearly view their present situation and agree upon the following: (1) individual countries in the region must respect one another's sovereignty and territorial integrity, and not participate in activities likely to directly or indirectly threaten the security of one another; (2) all foreign powers should be excluded from the region; (3) the region should not be allowed to be used as a theatre of conflict in the international power struggle; (4) they should devise ways and means of, and undertake responsibility for, ensuring peace among member states; (5) they should present a collective view before the major powers on vital issues of security; and (6) they should promote regional co-operation.

The proposal also envisages that the major powers (China, USSR and the US), must agree on the following: (1) southeast Asia should be an area of neutrality; (2) the powers undertake to exclude countries in the region from the power struggle among themselves; and (3) the powers should devise the supervisory means of guaranteeing southeast Asia's neutrality in the international power struggle.

The Malaysian proposal says that there must be a settlement in Vietnam because there can be no neutralisation of the region so long as the Vietnam war goes on.

The Other War

Nireekshak

NO sooner had the guns fallen silent in the Indian subcontinent than the other war erupted with renewed force. Some astrologers, so favoured by the editors of our Sunday editions, must have burped with delight at the turn of events. With Saturn coursing retrograde through Taurus (or was it Aquarius?) and Mars casting its most warlike glance at Saturn from its position 20 degrees sextile to Pluto (or was it Jupiter?) they had already predicted the liberation of Bangla Desh. However, the Heavens were full of other portents; they had warned, indicating continued strife in the general area under the influence of Indira Gandhi's Ruling Sign which, whatever it was, was in the ascendant. Of course, since astrologers are not usually consulted by editorial writers before arriving at their own assessments of international developments, none of these prophesies and prognostications figured in the editorial comments on the resumption of American bombing of North Vietnam.

The Connection

On the contrary, *Free Press Journal* actually said that "the latest show of American might in Vietnam" may have some connection with Pakistan's defeat in Bangla Desh. "It can only be the result of a calculated decision, designed presumably to give comfort to America's surviving allies that they have nothing to fear from recent developments, and particularly General Yahya Khan's fate", it said. "An American Administration that intended seriously and speedily to extricate itself from embroilment in Vietnam would hardly have ordered the Seventh Fleet to the Bay of Bengal to stoke the fires of another war which America's principal ally in South Asia had unleashed there... The message of the bombing seems to be that, contrary to appearances, what Washington is looking forward to is not withdrawal from South-East Asia but only limited adjustments dictated by domestic economic and political circumstances!"

Few others saw any real connection between the American diplomatic debacle in South Asia and the resumption of the bombing of North Vietnam. However everyone, bar one, condemned the bombing as another outrage. The newspaper which reacted quite blandly, as though what had happened was not much unlike a seasonal fluctuation in fish prices in the local market, was *Hindu*. "The purpose of the new American air offensive", it declared, even as a press release from the Pentagon might have, "is to neutralise the anti-aircraft batteries and missile-launching sites that have evidently been recently built up in North Vietnam by the Russians." The North Vietnamese had been "making a renewed effort against the south... [and the Americans had been] "steadily bombing the Ho Chi Minh supply route and had also tried to support the Cambodian troops". Where the comment differed in approach from a Pentagon press release was in the paper's statement that "both Hanoi and Washington accuse each other of having violated the 1968 truce. There is not much point", it added, "in seeking to fix the blame when each side is determined to get ahead of the other"!

Testing Out China

However, as *Hindustan Times* estimated the situation, it was a question of "Moscow aid [ing] Hanoi as Peking woos US". There will be "revulsion and horror", it said, "at reports that Indo-China has become a 'weapons lab' for the Pentagon and that terrible new-type bombs with vast destructive capabilities are being unloaded there... The US bombing seems also to have had the straightforward though significant political objective of testing out which of North Vietnam's two supporters—the Soviet Union and China—feels more committed to its ally." "In Mr Nixon's immediate calculations", the paper added, "detente with China is more important than peace in Vietnam. And he can be happy that one inference he can draw from the bombing of North Vietnam is that the bridge-building with China can proceed unimpeded. China has confirmed that, as in Pakistan's case, it is reluctant to commit itself militarily in Vietnam...".

Statesman saw the "intensification of American airstrikes on North Vietnam" as the "latest manifestation of President Nixon's failure to decide upon a course that could end the Indo-Chinese conflict on reasonable terms... There is no evidence that the security of the American troops in South Vietnam was threatened", as the US Command in Saigon had claimed. "It would appear", the paper said, "that Mr Nixon is not seriously interested in the Paris talks, does not know where else a settlement can be discussed, and hopes that he may know better after his visits to Peking and Moscow."

Prestigious and Well Paid

The appointment of Kurt Waldheim as the new Secretary-General of the United Nations was taken note of by newspapers in a very matter of fact manner, with neither enthusiasm nor despondency. "However exacting, the post of Secretary-General is also extremely prestigious and well-paid which perhaps explains why there were so many candidates in the field and why the canvassing was so brisk", commented *Times of India*. "During his 11-year tenure, U Thant did many things which displeased many members of the UN at one time or another. But he always seemed to retain the respect and confidence of most member nations as well as the two superpowers which is a tribute to his patience, ingenuity and sincerity. But it cannot be said that he is leaving the UN in a happy or healthy state... Mr Waldheim will need the goodwill of all member nations and all his diplomatic skill if he is to rescue the UN from the morass in which it finds itself today."

According to *National Herald* the fact that Waldheim comes from a neutral country, Austria, "must have ensured wide agreement on his appointment, apart from his long and distinguished career in foreign affairs". Since he is a westerner, he "will be usually compared with [Trygve] Lie... and with Hammarskjoeld". However "he has to be a bridge not only between nations but between races and peoples... Though he comes from Austria, he cannot be expected to lightly waltz his way from crisis to crisis...". As for U Thant, his "unspectacular but unquestioned goodness and devotion to duty could be traced to his Burmese and his Buddhist background", *Herald* said. He showed "dedication to the ideal of peace and devotion to understanding between nations but with the increasing tasks of peace-keeping... he became a baffled man and ultimately lapsed into passivity...".

Dissecting the Tax Structure

Amaresh Bagchi

THE most obvious and, understandably, the most notorious fact about India's tax structure is the high scale of direct taxes. All the world knows that India is the "highest-taxed nation", that here, with the maximum tax rate exceeding 80 per cent, "it pays more to evade tax on Rs 20/- than to earn Rs 100/-" and that taxes on income, profits and wealth are killing all urges for growth. Indeed, going by the schedules of personal income-tax — the rates for the top slabs now touch nearly 100 per cent — and the ceilings on expenditure admissible in the computation of taxable profits, the ill-effects of our income-tax would seem to be self-evident. One who happens to live within the country may be permitted to wonder, however, if that truly reflected the reality. Is any one of the five-star hotels or restaurants languishing for lack of custom because their charges reach the sky or because the provisions in the law do not permit expense account bills to go into the profit and loss calculations of companies for purposes of taxation? Have the dazzling shopping centres downed their shutters because no one frequents them or the festivals and weddings lost colour because of inroads by the State into private wealth? Have the queues for cars — none less-than-a-year long — vanished or the fabulous bids for the foreign ones sagged because no money is left to fructify in the pockets of the people? Has tax on property — urban property attracts an additional wealth-tax — stifled the sprouting of the latest architectural designs on the soils of Indian cities?

The conspicuous consumption that hits one in the eye may, of course, be taken to be the symptom of a high propensity to evade taxes prompted by their unconscionable rates evidencing the damage done to the cause of growth. The current slack in industrial production and investment may also be, and often is, cited in corroboration of the fears of Cassandras among the tax experts. But how serious a drag on saving and investment do the taxes really constitute? The behaviour of the stock exchange, that faithful indicator of the investment climate, might throw some light. According to a survey made in one of the weeklies not known for any malevolence towards private enterprise, the year 1970, which, it may be relevant to note, saw the hiking of the maximum rates of personal income-tax to a staggering 93.5 per cent with little relief in corporate taxation, "was a year of bulls, in which almost an unprecedented volume of business was put through, the turnover as a rule increasing with the rise in prices and thereby confirming the soundness of the market."[1]

Low Income Elasticity

No 'scientific' analysis can, however, proceed on such impressionistic lines. Data must be marshalled and functions formulated or curves fitted and R^2 tested before any conclusion with any pretension to credibility can be derived. This is precisely what Ved P Gandhi has done.* But with what results? One of his substantive conclusions says that to "the extent to which avenues of earning on an average of more than 10 per cent (and even 10 per cent) return on wealth are limited by the available investment opportunities and the possibilities of tax avoidance are constrained by the existing legal and statutory tax provisions", the income and wealth taxes in India will have serious disincentive effects on personal savings (p 21). Another pronounces that "the present corporation tax rates appear to be high, they reduce after-tax profitability significantly and thus discourage corporate investment and production" (p 126).

Gandhi cannot be unaware that the high rates have not made for much buoyancy in the actual yield of income-tax in India and that Sahota's study on the subject revealed little correlation between income-tax revenue of the Government of India and national income or income arising in the urban sector. In fact, finding the income elasticity of tax on income to be no higher than .565 Sahota had to conclude that income-tax in India is "a very regressive tax in effective rate indeed".[2] Sahota's study was based on figures for the period 1951-52 to 1957-58. There is no indication that the position has materially changed since. It is fairly well known that in terms of tax efforts, India's rating does not run very high even among developing countries — a recent Fund-Bank paper put it at 21st among 52 countries.[3] Findings of other researchers to the contrary notwithstanding, Gandhi's verdict on India's direct taxes as back-breaking would have carried more conviction were they not in conflict with his own judgments passed elsewhere in the book such as that "Indian Income-tax has not yet become so oppressive for the earned income earners as to create serious disincentives for savings" (p 18), that "income-tax (in India) has been regressive and inequitous intertemporally" (p 30) or that "the tax incentives to corporate investment, on the whole, appear adequate" (p 46). Evidently, something has gone seriously wrong either with Gandhi's method or his assumptions — or both.

II

The method employed by Gandhi to peer into India's tax structure is that of partial equilibrium analysis "abstracting from the use made of the revenue" — a method recognised as useful in assessing the effects of a free service or subsidy or welfare payment but not for quantitative estimates of shifting and incidence of broad-based taxes[4] which indeed is Gandhi's aim. The study is divided into three parts, 'Personal Income Taxation', 'Corporate Taxation' and 'Agricultural Taxation' and except in the part devoted to agricultural taxation, there is no attempt to go into the interaction of the taxes and the use made of the proceeds in their totality. The parts and the chapters are left in water tight compartments, with the result that the conclusions reached in one are not allowed to influence those reached in another even where clearly called for.

Take, for instance, the part on 'Personal Income Taxation'. In Chapter 3 of this part, after noting that the average rate of income-tax has come down over the years—tax demand as a percentage of total assessed income of all tax paying individuals declined from 18.6 per cent in 1950-51 to 12.1 per

* "Some Aspects of India's Tax Structure: An Economic Analysis", Ved P Gandhi; Vora and Co; Bombay, 1970; pp xiv+202; Rs 15.

cent in 1963-64—Gandhi concludes, "the effectiveness of income-tax as an equity measure has declined over the period 1950-51 to 1963-64 and this is in sharp contrast to the generally rising statutory tax rates" (p 31). The declining average rate of income-tax, he feels, is "partially explained by the increasingly large tax reliefs which have been given under the income tax. The tax reliefs (i e, exemptions plus rebates plus double income-tax reliefs) as a proportion of the income assessed were 4.7 per cent in 1953-54 and they seem to have increased to 8.4 per cent in 1961-62" (p 30). Apparently, these conclusions are not considered by Gandhi to be of any significance while analysing the disincentive effects of income tax on personal savings and thus the important conclusion of Chapter 2, *viz*, that the income and wealth taxes are severely inhibiting saving and investment is arrived at without taking any account of the available reliefs for saving which, according to one estimate cost the Exchequer as much as Rs 100 crores annually.[5]

HUFs, Trusts and Endowments

Even within the narrow context of an absurdly partial approach, the chapters throw up few conclusions which bear scrutiny. Much of the analysis suffers from sweeping generalisation, errors of assumption as well as an uncritical reliance on published figures of profit and tax revenues. These deficiencies show up glaringly in the very first chapter where an examination of the 'Structure of Personal Income Taxation' is taken up. In the short span of a brief chapter the author seeks to encompass all the major aspects of personal income taxation in India but ends up with a sketchy catalogue of the heads of income in the Income Tax Act, 'exclusions, deductions and exemptions', the rate schedules and a hurried look at the treatment of capital gains. The survey is little more than superficial and fails to go into or even notice the basic weaknesses of income-taxation in India stemming from the multiplicity of tax units that provides wide opportunities for income-splitting or the absence of a precise tax-base that often leads to the treatment of receipts which are essentially income as 'capital'.[6]

Factors like these—income splitting among individuals who really constitute one family, transformation of individuals and other income units into companies by incorporation, arrangement of income through settlements and trusts, the wide gap between statutory income and legal income—were found by Titmuss to be important enough to afford ground for challenging the views of economists and statisticians who had suggested a trend towards a "better and fairer distribution of income" in the UK in the fifties.[7] The doubts raised by Titmuss about the efficacy of income-tax as a redistributive instrument in UK, apply *a fortiori* to the scheme of income-tax in India modelled on the UK pattern as it is. Recognition of Hindu undivided family alone, an institution peculiar to India, as a tax unit could, according to estimates attempted for 1958-59, account for loss to revenue to the tune of Rs 147 crores (now as much as Rs 300 crores).[8] It may be noted in passing that the provisions of the Taxation Laws (Amendment) Act, 1970 aimed at prevention of income-splitting through conversion of an individual's separate property into Hindu joint family property, did nothing to touch the HUF as a tax entity and the scope it provides for tax avoidance through interminable partitions and partial partitions.

Erosion of Tax Base

Damage caused to revenue through the creation of trusts and endowments also must be more serious in India than in UK. Here the fact of dedication of any property to 'charity' does not require more tangible evidence than the ritual of a mere declaration of purpose, 'sankalpa' and 'utsarga', to get established in the courts and even those are not always necessary.[9] There is scarcely a business or wealthy house in India worth mentioning which does not have some 'charitable' trusts to its credit. The Finance Act of 1970 introduced some really tough measures to tackle the trusts, particularly the discretionary ones and to curtail the tax concessions which admittedly "have facilitated accumulation of tax-exempt funds with charitable and religious trusts",—funds which are often used for acquiring control over industry and business.[10] Prevention of misuse of tax-exemption for charitable organisations has been a running battle for the authorities ever since they came to be allowed in the tax laws. Whether the latest measures will succeed in achieving what they are intended to remains to be seen.

Gandhi shows little awareness of the enormous erosion of the tax base occurring through all these devices. There is, of course, a reference to provisions which can help the rich to reduce their tax liability, e g, "converting their incomes into long-term capital gains, converting individual incomes into corporate incomes, investing in tax-free Government securities insurance and pure endowment policies and splitting taxable incomes through the formation of trust and Hindu Undivided Family, gifting away of some of their incomes and wealth and so on" (p 20-21). But these are cited by way of "provisions for purposes of tax planning" and not as gaping holes in a seemingly formidable tax structure. Almost ruefully he adds "all tax payers do not (and, in fact, cannot) make use of the tax avoidance possibilities equally", not recognising the fact that persons whose income and wealth sharpen the disparities, almost invariably do, and goes on to assail the 'extreme progressivity of the tax structure' on grounds of disincentive effects.

Analysis Vitiated

Mistaken ideas and assumptions about some of the basic features of income taxation in India also vitiate Gandhi's analysis of personal income-tax. The very opening sentence — "Every tax has an explicitly defined base"—will cause surprise to students of Public Finance. As is well known, one of the major points over which Woodcock, Bullock and Kaldor dissented from the views of the majority of the British Royal Commission on Taxation of Profits and Income was the absence of a precise definition of the base in British income-tax as a result of which the tax system in UK came to be guided by such illuminating dicta of judges as "Income-tax is a tax on income".[11] The position in India has been no different. The Indian Taxation Inquiry Commission of 1953-54, it may be recalled, sought to justify the absence of a definition by saying that "though a precise definition of income is not given in Income Tax Act, it is quite clear from the Act that the charge is applicable only to income, that is, it should not fall on capital or any element of necessary cost."[12] But in the absence of any indication of what demarcates income from capital, whether a given item of receipt is income or not came to be decided quite often virtually on the spin of a coin. The Income Tax Act of 1961 which replaced the 1922 Act did nothing to remove the anomaly. Rather, by bodily incorporating the 'inclusive' definition of income from the Act it repealed, the 1961 Act continued to give the impression that nothing could be brought to taxation unless it fell within the frame of this particular section.

Even more grievous is the error in Gandhi's assumption that the concept of income for taxation in India is 'essentially' an 'accrual concept' which, he believes, "is quite close to what is readily acceptable to many economists". Gandhi seems to have taken the expressions 'accrued' and 'deemed to have accrued' used in the statute literally without caring to inquire what they are taken to signify in legal practice. As the British Royal Commission recognised, "it is a basic principle of both of the tax system and of business accounting not to take account of profit until they are realised".[13] It was primarily this consideration that led the US Supreme Court in the celebrated case of Eisner *vs* Macomber to overrule the treatment of bonus shares as income.

Much Wider in Scope

The accrual concept which underlies the Haig-Simons formulation of the accretion-of-economic-power definition of income is much wider in scope than accounting income and the main difference between these two income concepts, as one authority on accountancy put it, lies in "the accountant's attachment to realisation as the test of emergence of income".[14] In accountancy—and in taxation—departure from the realisation criterion is allowed in precisely two respects, *viz*, (i) while allowing for depreciation of assets, and (ii) in valuation of inventory on cost or market price rule. The development of cash accounting into mercantile accounting, no doubt, signified a "de-emphasising of the importance of realisation". Yet, "it must be remembered when everything has been said, that accounting income (which forms the base of taxation) is still substantially realised income". Dissatisfaction with ascertained profit figures even for purposes for which they are traditionally used, e g, determination of corporate dividend policy and as a measure of business success, has been voiced for some time by accountants. The 'variable income' idea of Alexander was an attempt to cure the deficiencies of the concept of income in vogue among accountants. But there is as yet no clear indication as to what shape the concept will finally take in accountancy.

It is a well settled principle of Indian tax laws too that income can be said to have 'accrued' or arisen only when a debt becomes due which is in line with the accounting concept of income realisation.[15] As mentioned earlier, departure from the realisation criterion is permitted only to a limited extent by way of special concession to enable the taxpayers to recoup the depletion of his capital resulting from use or a decline in the value of closing stock below cost price. This is not the only respect in which the tax base diverges from the economic power-accrual concept. The net-flow-of-wealth definition of income to which the base for income-tax in most countries approximates excludes the value of all goods and services enjoyed by the tax-payer which do not reach him *via* the market, e g, housewives' services and the service of durables. In Indian income-tax there is only one exception to this rule, *viz*, the provision for imputing income from owner-occupied houses. But restrictions on the computation of national income from residential houses *viz*, that it should not exceed 10 per cent of the other incomes coupled with the Supreme Court ruling that only "the standard rent" prescribed in the Rent Control Act where such legislation is in force can be taken for purposes of imputation, no matter how high the rents prevailing in the locality are,[16] have rendered this exception to be of little practical significance.

Not at Market Rate

Even where the benefits acrue *via* the market their value is not taken at the market rate in all situations. For example, employees of Government and, by virtue of an amendment to the rules made in 1969, of public sector undertakings too do not normally have to pay tax on the market worth of the accommodation provided to them, however lavish the scale.[17] The conundrum of Kaiser's aides, *viz*, not all enjoy (or can afford) living on the grand standard they are obliged to maintain to keep up their employer's status may, of course, be invoked in support of such practices. There may be practical considerations as well for not attempting to go beyond the marketed items while looking for taxable income. Considerations such as housing needs of the community may also be proferred as justification for treating notional income from residential houses lightly and for exempting the income from new houses from income-tax and the value of owner-occupied houses upto a lakh from wealth tax, though it is questionable whether this kind of exemption has any efficacy in encouraging the construction of houses which are in acute shortage, since a tax-benefit after all can enthuse only tax-payers. The spectacular growth of fancy 'ownership flats' in and around Bombay (and elsewhere) while slum and pavement population continues to swell can perhaps be traced at least partly to the subsidy they enjoy in the form of tax relief.

Whatever be their compulsion, the instances given above serve to illustrate how the tax base falls short of the economists' ideal. Whether the compromise of equity considerations is compensated by economic benefits is not too clear in every case. In any event, if serious ill-effects on equity are to be avoided, the tax base must embrace the value of all annual (net) gain or loss in every tax-unit's power to consume goods and services, whether exercised or not. It was on these lines that the Carter Commission of Canada wanted the tax base to be reformed and it is widely acknowledged that the Commission displayed as much concern for practicality as for principles of equity.[18] The base for Indian income-tax, it needs to be mentioned, does not come anywhere near such standards.

Progressiveness Blunted

The damage caused by a departure from the all-comprehensive tax-base is not easy to quantify. Misgivings about the propriety of leaving unrealised gains out of the tax base, however, do not spring from a mere fad for theoretical niceties. Their exclusion may well be the principal factor responsible for blunting the edge of progressive taxation. In the US, total capital gains for the years 1949-57 were estimated to be of the order of $ 400 billion of which hardly 15 per cent were realised. As of 1963, the amount of appreciated capital values outstanding was estimated at about $ 600 billion.[19] Though no such estimates are available for India, with a steady rise in government spending, prices and capital values accumulated gains to the upper income and wealth brackets occurring through this channel would seem to far outweigh the so-called ordinary income. And this applies no less to companies. The tough fight put up before the Supreme Court for a 'just' price for the undertakings of the 14 banking companies nationalised in 1969, which eventually compelled the Government to pay a compensation of Rs 87.4 crores whereas the market value of the shares of the companies aggregated not more than Rs 50 crores should be a pointer to the dimensions of the gains that remain conveniently below the surface.

Gandhi shows no curiosity about what lies behind the published figures. He has, therefore, no hesitation in basing one of his crucial conclusions on

the finding of a Reserve Bank study, *viz*, "that a 10 per cent rate of return on wealth is relatively uncommon in the Indian economy today" (p 19). He has, of course, entered the caveat that "this conclusion is conditioned by the reliability of Reserve Bank's price data". It does not seem to occur to him that where the market rate of interest rules at 15 per cent — as indicated in the same study — it is unlikely that the general rate of return on investment would be as low as 10 per cent. If nothing else, the annual increase in prices alone yields anything between 5 and 10 per cent to asset holders!

Gandhi takes the published income tax statistics too with no reservation. As every researcher in the field of taxation in this country knows — or ought to know — the figures of income assessed and tax levied in a year set out in the tables of All-India Revenue Statistics relate to the assessments completed in that year and not the income earned in the year or the tax pertaining to that income. The assessments invariably comprise a good number of backyear cases and the proportion of backyears in the total number of finalised assessments does not remain constant, as it depends on many factors, not the least of which is the intensity of the 'drives' launched from time to time by the Revenue Department to clear the backlog of arrears. Thus, contrary to what Gandhi presumes (*vide* footnote 11 to p 31), the impact of changes in tax rates in a year may or may not be reflected in that year's figures of tax demanded as set out in the tax statistics unless one takes into account the figures of collection of advance tax and the tax deducted at source as well. One could sympathise with Gandhi in this — after all, he has to make do with whatever figures are available — if only the limitations of the data had served to temper the definitiveness of his assertions.

III

These weaknesses also mar the analysis and the important conclusions of the next and the largest part of the book which is devoted to corporate taxation. In this part, Gandhi first gives an outline of the 'Structure of Corporation Taxation' — listing the partial and 'total' disallowances of various kinds of expenses in the computation of company income for taxation and then proceeds to study selected aspects of corporate taxation, *viz*, tax depreciation policy, implication of export incentives, incidence of corporation tax, its impact on corporate investment and concludes with an examination of the relative merits and demerits of alternative bases for taxation of companies.

Gandhi finds the structure of Indian corporate tax 'complex', some of the complexities being the by-products of law and some the results of what he calls 'partial disallowances'. The latter, he feels, ought to be dispensed with. The large area of discretion left to the tax officers to decide how much of certain types of expenses are 'unreasonable' and 'excessive' appears to him to be particularly objectionable, being unnecessary and costly to the tax payer and the government alike. Elsewhere in this part, Gandhi observes, "the income (and corporation) tax which would stimulate corporate investment most would be the one which", *inter alia*, "taxes profit on the basis of accountant's profits (as in Denmark, Netherlands and Sweden)" (p 107).

Faith in Audited Accounts

Indeed, Gandhi's faith in audited accounts is almost touching. In an appendix on 'Tax Avoidance by Companies', he contends that the requirement under the Companies Act for all companies to publish financial statements including the profit and loss account audited by qualified auditors and chartered accountants precludes any possibility of evasion by companies, apart from the fact that the management being divorced from ownership has no incentive for such malpractices. Whether suppression of the true profits of a company by, say, charging non-business expenses to the company account or by falsely inflating expense bills and understating receipts constitutes evasion on the part of the management — an amorphous term which can extend to anyone from the managing directors to an upper middling executive — or by the company itself, or, in other words, whether criminal intent can be fixed on a company as such is a moot question of law on which many a case of evasion laboriously built up by the Income Tax Department against companies founders. But to deny knowledge of such practices is to take refuge in innocence of a curious kind.

Pointing to the statutory obligation of auditors as an *ipso facto* and incontestable evidence of the holiness of the corporate sector would perhaps amuse the auditors themselves. How many accountants auditing company accounts can declare with their hands on their hearts that the certificates of character bearing their signature carry no load on their conscience? In how many instances do the auditors put their foot down on attempts to pass off purely personal expenses — bills for electricity or petrol consumed on a directors' daughter's marriage, for instance — as 'business' ones, instead of readily accepting a 'declaration' from the management, knowing it to be false? Contrary to the view sought to be advanced by Gandhi — also propounded loudly by some eminent tax-experts now and then — corporation tax cannot be blamed for inducing — by providing a subsidy — lavishness on the part of companies. If the rules are honestly observed, little of such expenditure can be deducted from taxable profits. Commonly, however, these items are lumped under innocuous heads like 'Miscellaneous' or 'Sales promotion', the true particulars of which the tax officers with the limited time at their disposal and by the very nature of the post-mortem they carry out can seldom get at in a manner that can satisfy the courts. It matters little whether this amounts to 'avoidance' or 'plain evasion'. The result for the company — the silent majority of the shareholders at any rate — and the Exchequer is the same. Under the circumstances, what is the alternative but to allow wide discretion to the revenue authorities to disallow a part of such items? Opinions may differ whether the complexities of the law are the cause or the effect of the taxpayers' heavy investment in 'tax-planning'. But one thing is certain. Even with all its complexities, the law being no match for the ingenuity of the assessees and their advisers has not so far succeeded in touching the cream. Did, for instance, the restrictions on the expenses of running guest houses curb their growth? Acknowledgedly, it was the failure of the restrictive provisions to prevent the proliferation of guest houses that led to the total ban on the admissibility of guest house expenses in 1970 (except for holiday homes for employees).[20] Whether this will help either is another matter.

Not a Reliable Index

The fact is that the book profits of incorporated business, like those of unincorporated ones rarely provide a reliable index of their actual gains. More often than not, the corporate form provides a convenient cover for proprietory control over an obliging cow which can be milched for anything from palatial residence complete with crockery, furniture and domestic help

to holiday in hill stations and trips abroad. No meaningful analysis of the economic impact of a profits tax on corporate behaviour is possible unless the figures of profits on which the study is based represent, at least, the *true* accounting profits if not the unrealised capital gains. To get an idea of the actual profits of a company and not what remains after their utilisation for the benefit of the management, it would be necessary in many cases to tag a good portion of the amounts shown under several debit items of the profit and loss account to the net profit and, perhaps, of the profits of the company's 'suppliers' and 'distributors' too, many of whom render no service other than paving the way for diversion of the company's profits. Gandhi comes almost near recognising this fact, at least partially, while examining the incidence of corporation tax, when he states, in explanation of his finding of a positive relationship between the tax variable and the wages and salaries index, that "by stretching the imagination, one may say, that this positive relationship could be indicative of some tax induced inflation of wage bill by the companies either through larger employment or generous perquisites, bonuses, employees' welfare expenses, etc, in the periods of tax rate increases" (p 81). But he shies away from going into it further and, instead, chooses to regard it as an index of tax avoidance by companies. Hence, after relegating the point to an appendix he proceeds to examine statistically the correlation between tax rates and assessed profits, which, in fact, represent the base on which companies make provision for taxation in their accounts and not their assessed income. The result not surprisingly is inconclusive. After all, business profits are subject to too many influences to be amenable to a correlation analysis with only three variables, especially when the crucial variable *viz*, profit, does not reflect the real profits at all.

Not the Only Weakness

Unreality of the book figures of profits is not the only weakness of Gandhi's analysis of the incidence of corporation tax in India. The conclusion he arrives at, *viz*, that the incidence of tax on company profits in India falls essentially on capital and is not shifted forward to consumers or to labour is sharply at variance with that of Lall and Laumas (referred to by Gandhi himself). But he suggests no clue as to the reasons for such divergence of his results from those of earlier studies. Even so, Gandhi's finding would have carried more plausibility had he not limited the scope of 'capital' in this context only to equity capital. It is recognised that since in the computation of taxable profits deduction allowed for interest on debt capital but not equity, corporation tax induces substitution of debt for equity.[21] There is evidence to show that this has taken place on a fairly wide scale in India too. Shifts may also occur from the corporate to the non-corporate form thereby helping to maintain the rate of return on corporate investment over the long run. The extent to which short-run shifting — the period of about a decade chosen by Gandhi is essentially short — could be neutralised by long-run shifts, and more important, non-tax influences could affect the after-tax profit ratio is not indicated in Gandhi's study. He has, of course, hedged his arguments by drawing attention more than once to the limitations of the methodology. It would perhaps have helped set the perspective more clearly if the limitations were spelt out.

The methodology too would have been more productive if the variables were chosen and their ambit defined with a little more regard for corporate practices. 'Dividend' for instance could have been taken to include bonus shares while trying to ascertain whether taxes tend to reduce the shareholders' current dividend. There is nothing to show that in Gandhi's study dividend includes bonus shares although it cannot be unknown to him that profits are distributed among shareholders in this form too and that such distribution does not attract any tax in the hands of the shareholders and never did except for a short interregnum.

Gandhi's conclusions look more plausible when they are derived independently of tax and profits data. The chapters on tax depreciation policy and tax incentives for exports provide some useful guidelines for policy. Interest in the chapters, however, has now diminished somewhat with the announcement of changes in depreciation rules in December 1969 and the withdrawal of the pre-devaluation incentives for exports. It would be of some satisfaction to Gandhi that the Government did not act on Bhoothalingam's recommendations for the abolition of double-shift allowance and for granting depreciation on 120 per cent of the actual cost of capital assets, which Gandhi has demonstrated are really less generous than they appear to be. While examining the tax incentives for exports Gandhi again confines his attention only to incentives given in the form of relief in taxation to the exclusion of those allowed in other forms like import entitlement or subsidised credit. Besides, the saving resulting from the provision for weighted deduction of expenditure incurred for developing export market is, it is to be noted here, not 0.30 t.R. (t standing for tax rate and R for expenditure eligible for weighted deduction) as indicated in Gandhi's formulation, but 1.33 t.R.

IV

Demerits of the corporation tax impel Gandhi to look for alternatives. He examines in this context the suitability of a tax on 'value added' and one on corporate capital. The former he commends heartily and summarily rejects the other. He finds no merit in Bhoothalingam's suggestion for the levy of one per cent on corporate capital. He challenges Bhoothalingam's idea that such a tax would lead to more efficient use of capital on the ground that it would discourage capital intensity, discriminate between firms of unequal capital intensity but equal profits and would cause expropriation of capital when firms fail to make profits for reasons beyond their control, e g, recession. In his view, it is also inequitous, as it involves double taxation of the same capital in the hands of the company as well as its shareholders. For bringing about a more efficient use of capital, he feels, a higher rate of interest or excise on capital assets or stricter licensing would be more suitable. He even thinks that a tax on corporate capital might be passed on to consumers. (How, one may ask, when his own finding about the incidence of tax on corporate profits points otherwise?)

None of the arguments advanced by Gandhi against Bhoothalingam's suggestion seems convincing. Though its net effect on saving is unpredictable, *a priori* consideration would suggest that per unit of revenue a tax which is independent of income will have a less deleterious effect on investment than one related directly to income.[22] When capital is more expensive companies will presumably seek to make the best use of it. Fears of a shift from the corporate to the non-corporate form expressed by Gandhi are also unfounded since non-corporate assets are already subjected to wealth-tax. The case for a levy on corporate capital, however, lies more strongly in equity than in its other benefits. For, apart from the familiar argument that wealth by itself constitutes an index of ability to pay, a tax

on wealth offers an effective way of reaching a substantial part of the accumulated, i e, unrealised and so untaxed, capital appreciation and helps correct the inequity caused by the exclusion of unrealised gains from taxation, which is inherent in an income tax system based on the realisation principle.

As for the alleged element of double taxation, fears on this score would seem to be illusory. There would indeed be no case for a tax on corporate capital or for that matter corporate profits in addition to income tax on dividend and wealth tax on the value of shares in the hands of shareholders, if (i) the appreciation of a company's capital and reserves was reflected accurately and with no time lag, in the value of its equity, and (ii) the gains thus accruing to shareholders were taxed at the point of their accretion. The value of company shares, however, being dependent more on the current dividend paid rarely corresponds to the value of the assets they represent.[23] The gap between the aggregate market value of the shares of the banking companies whose assets were nationalised in 1969, and the book value of the net assets of the companies (not to speak of their market worth) at the time of the takeover, *viz*, below Rs 50 crores and nearly Rs 70 crores respectively, again illustrates the point.

Thus there is a valid case in equity for a separate levy on the net assets of companies at their market value even if shareholders are taxed on the share independently, and the unrealised accretion to their equity holdings is subjected to income tax, as recommended by the Carter Commission. Times of recession might indeed pose hardship but with a recession capital values too should recede thus reducing the tax liability. Besides, suitable relief can be devised for such eventualities in the form of a tax remission linked with decline in capital values or a spread-over in the time allowed for tax payment. Bhoothalingam thus did stand on good ground while recommending a levy on company capital and such a levy of even 1 per cent would now easily fetch more than Rs 50 crores, the estimate made by Bhoothalingam in 1967.

Value Added Tax

Replacement of corporate tax by one based on 'value added' commends itself to Gandhi more readily. He thinks that "India, more than any other country, needs corporate tax structure based on the value added rather than profit" since the tax on corporate profits and surtax on companies discourage efficiency (p 126). "The value-added tax", he asserts "has the economic merits of efficiency, productivity, investment incentives and export promotion." The virtues of this fiscal contrivance seem to have won for it many admirers in this country besides Gandhi. One of the major recommendations of Bhoothalingam was the introduction of what he called a 'General Excise Duty'[24], the base of which, despite his disclaimer, bears a strong resemblance to the VAT. Echoing Gandhi's arguments and, in fact, quoting him, in May 1971, shortly before the Budget for 1971-72, was presented, the *Economic Times* made an impassioned plea for the introduction of a value added tax on grounds of its administrative simplicity, wide coverage, flexibility and less wide scope of evasion.[25] Apart from the stimulus to investment and production which VAT would provide by replacing the irksome corporation tax which tended to fall on profits and dividend, the benefit of the VAT, it was contended, could be passed on in the form of lower prices of consumer goods and exports.

The fallacy patent in the argument that substitution of corporation tax by VAT will lead to lower prices while maintaining in the same breath that no part of the tax on company profits is passed on to consumers is too obvious to require elaboration. The real implications of the contention regarding its large base and, hence, the immensely wide scope for almost painless extraction of resources from the community which VAT supposedly offers to government, however, needs to be examined at some length if the merits of this magic tax are to be assessed dispassionately. To clear the mist created by VAT's crusaders, I can do no better than reproduce some of the observations of the National Economic Development Office (NEDO) of UK contained in its report on VAT.[26]

No Philosopher's Stone

Addressing those who thought that it was in some sense a means of subsidising exports or that it contributed to efficiency by taxing costs, the report says, "It is important to remember that a VAT is a tax; it is not that fiscal philosopher's stone, a subsidy which yields revenue" (para 1.3 of NEDO report on VAT). Essentially, it is a broadly based *ad valorem* tax on consumption, and if it helps net a large yield without touching profits as much as corporation tax does, it must be by taxing those segments of society who get no share in the profits more than those who do. To counter possible objections on account of the inequity involved in taxing wage earners through a VAT Gandhi argues that the majority of them are exempt from income-tax at present and "this (VAT) may be a way of reaching them directly (*sic*)". One would have thought that with prices going up, there was a case for revising the exemption limit upward, as was done by the 1970 Finance Act, rather than the other way round. Besides, is not a lowering of the limit of tax exempt income a more straightforward course if the aim is to make every one pay income tax?

To allay apprehensions about its shifting to consumers Gandhi argues that in the long run a VAT will be shifted backwards through shifts in demand and thus 'become a direct tax on the incomes of the factors of production'. Hence, he thinks such a tax may be anti-inflationary, "in fact deflationary" (p 116). But if ultimately VAT comes to assume the role of a direct tax on factor incomes, the question arises, income of which factors? If it is capital; how is VAT superior to corporation tax? Obviously, the factors Gandhi has in mind are obviously those other than capital. The incidence of VAT therefore, even on Gandhi's presumption, is bound to be regressive. Besides, what is the warrant for assuming that the tax will not fall finally on consumers? This is what the NEDO report has to say on the point:

"Although the tax is automatically invoiced on sales, the impact of its imposition upon the tax-exclusive prices of goods and services will depend upon the state of competition in particular markets, upon the prowess of particular tax-payers to vary prices, and upon what associated changes are introduced in other taxes at the same time" (para 2.32).

Can we assume that the Indian markets are so competitive as to preclude any possibility of shifting or that the Government can afford to remove or substantially reduce corporation tax as soon as a VAT is imposed? Even UK has not found it possible to do so.

Incentive Effects of VAT

The arguments about the efficiency, investment and export-incentive effects too depend crucially on what happens to the general level of costs and prices. Evidently the advantages are lost if the costs rise as much as the VAT. If, however, as the NEDO report suggests, we assume that a part of VAT

is absorbed by the capital goods producer and consequent on its imposition unit labour costs rise more than that of the capital goods, mechanisation might turn out to be attractive. But can one maintain that speedy mechanisation would be an unmixed blessing in our present state of unemployment?

Lastly, a word about the administrative simplicity claimed for VAT. For a country like UK where the quality of tax administration is at least not worse than India's, it was estimated that around 6,000-8,000 additional tax officials would be required to administer a VAT and even so, the UK revenue authorities warned that some dilution of standards would be unavoidable. Staffing requirements can of course be reduced, as the NEDO report indicated if spot checks coupled with severe penalties are relied on more than full coverage of traders by inspecting staff. But does the experience of the State Governments in this country with sales tax administration warrant any confidence that periodic spot checks alone would do for enforcing a VAT? It has been suggested that under VAT, one man's proof of purchases is evidence of another man's sales and, therefore, it would not pay to keep a transaction uninvoiced. But that is no safeguard against evasion which can easily be practised—as is indeed done on a large scale with sales tax in India—by simply omitting to invoice sales to final consumers. Where multiple rates of tax apply—and there is no guarantee that differential rates will not emerge on considerations of socio-economic priorities if not out of pressures for special treatment from influential groups of producers—misclassification of goods on returns may also provide a potent source of evasion.

It is also relevant here to note that the main reason why the six countries of the EEC adopted the common VAT system was "the need to find a mutually acceptable method of indirect taxation which would operate without producing distortions in the flows of trade among the members of the economic union"[27] and that Britain's desire to replace purchase tax by VAT was not unconnected with her "desire to fall in line with most other Western countries".[28] There can be little doubt that a VAT whether designed to substitute direct taxation of corporate income or to take the place of selective excise tax will be regressive and almost certainly will be widely evaded. Whether from considerations of revenue and growth it is still preferable to the existing imposts involves a judgment on social priorities as also a choice of technique appropriate in the context of the income distribution and economic behaviour pattern of the community. Who should be asked to tighten the belt, to what extent and how has to be considered in the light of the realities of consumption levels and proclivities of the different sections of the people and cannot be decided through an exercise in semantics.

Need for Widening Tax Base

The crux of our fiscal problem at present, as perhaps always, lies in how to raise more taxes equitably without killing the incentives to work and invest. Scope for achieving this by stepping up the rates of direct taxes is nearly exhausted and, when the base is constricted, steepening of the rates tends to be counter-productive though not necessarily crushing. Widening the base, apart from strengthening the tax collecting machinery, seems to be the only course open. But that need not be done through a generalised tax on consumption like VAT which with all its variations, cannot take the personal circumstance of each tax payer sufficiently into account. The base for direct taxation too offers good scope for widening as Gulati has recently demonstrated and as Gandhi too has shown in the third part of his book, which is devoted to a study of agricultural taxation. The need for looking into the subsidies while studying the incidence of taxes is well recognised by Gandhi in this part. He has made out a convincing case for taxing agriculture like other incomes. That of course, is now more or less accepted by everyone. Even so, the study is a useful contribution to the subject.

An attempt to look beyond the formal incidence of a tax is unfortunately confined only to Part III. Application of econometric tools to illuminate the dark corners of the tax structure is surely not to be deprecated. But models prove sterile if they are to work on the fiction of make-believe variables and unreal data. Taxes do not operate in a vacuum. Study of a country's scheme of taxation, therefore, if it is to deepen the understanding of the actual distribution of the burden of a tax has to take into account not only the entire gamut of government's economic operations but also the context of the legal framework in which the tax laws are administered. How do income disparities accentuate when direct taxes are supposed to net in more than 100 per cent of the income of top earners? How do people manage to enjoy standards of living beyond what ostensibly remains of their means after paying taxes without at the same time running foul of the law? How does a parallel economy thrive underground even in the face of threat of penalty which since 1968-69 can extend to 200 per cent of the income or wealth sought to be concealed? What is it that leads to a boom in real estates even after the Government gives notice of its intention to acquire properties at their declared values if they are understated and of measures to punish benami transactions?[29] What percentage of the incomes assessed and penalities levied by tax gatherers which figure in the revenue statistics get knocked off in appellate stages? How often and how successfully can one accused of misdemeanour in tax matters invoke 'fundamental rights' to postpone his day of reckoning with the tax authorities? These questions too are as pertinent to a study seeking insight into the actual incidence of taxes as the sections in the tax statute and the correlation of the prescribed rates or the yield of taxes levied with variables like income and profit. The tax structure forms an integral part of the socio-political-cum-legal edifice and its strength or weakness cannot be unravelled through a mere process of dissection any more than that of a living body.

Notes

1 "Stockmarkets—2", *Commerce* Annual 1970, p 324.

2 G S Sahota, "Indian Tax Structure and Economic Development", 1961, pp 16-17.

3 Jorgen R Lotz and Elliot R Morss "Tax Effort in Developing Countries", *Finance and Development*, No 3, 1969.

4 Carl S Shoup, *Public Finance*, 1969. pp 16-17.

5 I S Gulati, "Agenda for Tax Base Reform", *Economic and Political Weekly*, May 15, 1971 and also "Agenda for Tax Base Reform—Reply", *Economic and Political Weekly*, October 16, 1971.

6 A Bagchi, "Income or Capital? *Economic and Political Weekly*, October 24, 1970.

7 Richard M Titmuss, "Income Distribution and Social Change", 1962.

8 I S Gulati, "Agenda for Tax Base Reform", *Economic and Political Weekly*, May 15, 1971.

9 B K Mukherjea, "Hindu Law of Religious and Charitable Trusts", 1952, pp 103.

According to an estimate made by the Public Accounts Committee, "there are 45 trusts connected with industrial houses" their total funds amounting to Rs 24.11 crores. Most

of these funds, it is noted by the PAC, are invested in concerns managed by the connected industrial houses: The problem, concludes the PAC, 'continues to elude a satisfactory solution' (12th Report of PAC to Lok Sabha).

10 "Explanatory notes on the main provisions of the Finance Act, 1970, relating to Income-tax and other direct taxes", Central Board of Direct Taxes (Public) Circular No 45, dated September 2, 1970, para 19.

11 Royal Commission on the Taxation of Income and Profits, Final Report 1955, Memorandum of Dissent, para 10.

12 Report of the Taxation Inquiry Commission, Government of India 1953-54 Vol II, p 40.

13 Royal Commission on the Taxation of Income and Profits, *op cit*, Memorandum of Dissent, para 53.

14 D Solomons, "Economic and Accounting Concepts of Income", *Accounting Review*, 1961, reprinted in "Readings in the Concept and Measurement of Income", edited by Parker and Harcourt, Cambridge University Press, 1969.

15 Supreme Court in E D Sassoon & Co Ltd *vs* CIT (1954) 26 Income Tax Reports 27.

16 Supreme Court in Corporation of Calcutta *vs* Padma Devi, AIR 1962 SC 151.

17 According to a recent newspaper report some officers of Government have been provided with "what is considered the last word in Bombay's flat world" (*Hindusthan Times*, November 15, 1971). A bank in the public sector too, says the report has built attractive flats for its officers in the locality. Even if what the report said was correct under the rules as they stand now the occupants of these flats would not have to pay any income-tax for this benefit, so long as they pay rent at the prescribed rates which, of course, bear no relation to market realities.

18 Alan Walters, "Tax Reform — International Comparisons", *The Banker*, March 1971, pp 242-243.

19 Henry C Wallich, "Taxation of Capital Gains in the Light of Recent Economic Developments", *National Tax Journal*, 1965, vol XVIII No 2, p 133.

20 Central Board of Direct Taxes, *op cit*, para 36.

21 M Krzyaniak and R A Musgrave, "The Shifting of the Corporation Tax", 1964, pp 1-21; reprinted in "Public Finance" edited by R W Houghton, Penguin Modern Economics Readings.

22 M Tanabe "Taxation of Net Wealth" in "Readings on Taxation in Developing Countries" edited by Bird and Oldman.

23 N Kaldor, "An Expenditure Tax", 1955, Chapter V.

24 S Bhoothalingam, Final Report on the Rationalisation and Simplification of the Tax Structure, paras 3-3 to 3-10.

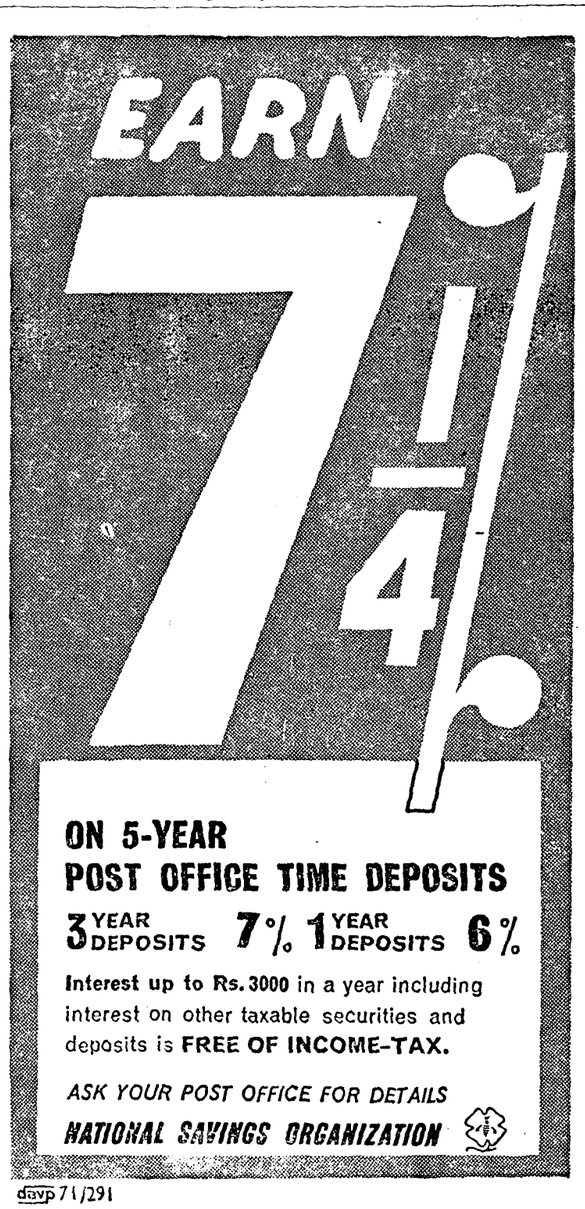
25 "Corporation Tax in India — Can It be Replaced by a Value Added Tax?", *Economic Times*, May 19, 1971.

26 "Value Added Tax", a report by National Economic Development Office, HMSO, London, 1969.

27 *Ibid*, para 1.11.

28 Derek Peyton-Smith, "Budget Stimulus to British Economy" British Information Service B 150.

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Working Force in 1971 Census

Some Exercises on Provisional Results

J Krishnamurty

While the Census is a major and most convenient source of information on the working force, its results need to be analysed carefully to ensure comparability and accuracy.

A superficial glance at the 1971 Census data, for instance, indicates the need for cautious interpretation. While the population increased by about 2.2 per cent per annum between 1961 and 1971, the working force declined from 189 million to 184 million. Even the figures for males, which are generally more reliable, seem to be understatements. The same bias appears present in the crude participation rates. To some extent, the decline in participation rates reflects changes in concepts. It is likely, too, that the enumerators chose in many cases not to record the newly required subsidiary information.

Changes in the industrial distribution of the working force are a major indicator of changes in the level of economic development, but any under-reporting of the working force as a whole might distort the industrial distribution. The share of agriculture in the total working force has declined over the decade. But this may not reflect progressive diversification of economic activity. The trends are different among different states; and, generally, while the share of cultivators has declined that of agricultural labourers in most states has risen sharply. This may be because 'marginal workers' mainly cultivators, were excluded from the recording. Moreover, we do not yet know the magnitude and composition of the unspecified component which has been bracketed with non-agriculture. If that element is smaller than in the other Censuses, our preliminary conclusions about diversification may be upset.

THE Census is a major source of information on the working force, and the information it collects enhances our knowledge of the economy and helps in the formulation of policy. The size of the working force; its distribution by age, branch of economic activity, type of work, and status; and its distribution by sex, by region, and between the rural and urban segments — are all essential elements of information about manpower supply. In a country as large and diverse as ours, such information is needed for even relatively small areal units. It is only a Census which can simultaneously provide figures for small and large areal units. It is necessary to examine the 1971 results carefully and to try as best as one can to ensure comparability and accuracy.

A superficial examination of the results, made available by the Census Commissioner in Paper 1 of 1971 — Supplement: Provisional Population Totals, would suggest that something went wrong. While the population increased at about 2.2 per cent per annum between 1961 and 1971, the working force declined from about 189 million to about 184 million during the same period. Closer examination reveals that, while the male work force increased slightly, the female work force declined very substantially. While the data on females are generally unreliable, being sensitive to changes in concepts and procedures, the figures for males are usually more firm. In 1971, however, even the male figures look like gross understatements of the true size of the working force. This will be obvious if we look at the crude participation rates revealed by the 1961 and 1971 Censuses. While the crude participation rate for males and females together declined from 42.98 per cent to 33.54 per cent over the decade, for males the decline was slight — from 57.11 per cent to 52.53 per cent — while for females the decline was sharp — from 27.95 per cent to 14.55 per cent. Such a large fall in the crude rates is unlikely, unless we have reason to believe that changes in the age-sex composition and/ or socio-economic factors have operated to lower the work participation.

To some extent, the decline in participation rates reflects a change in concepts. As the Census Commissioner himself points out,[1] all persons in 1971 who returned their main activity as 'students', 'house-workers' or 'rent-receivers' were regarded as 'non-workers'. Any gainful activity that these people had but which was not on the scale of full-time work, was regarded as secondary work. In 1961, all such persons would have been classified as workers. It is, therefore, quite possible that the 1971 results fall in line when the secondary activity (if it is productive work) of those who have currently been classified as non-workers is tabulated and taken into account. There is the great danger, however, that, to simplify their task, the enumerators chose in many cases to ignore the secondary activity which, if recorded, would involve making many more entries on the Individual Slip. It is possible, then, that we find the revised rates for 1971 still well below the 1961 rates.

Changes in the industrial distribution of the working force are a major indicator of changes in the level of development, but any under-reporting of the working force as a whole might distort the industrial distribution to some extent. In the available information for 1971, the working force is divided among

TABLE 1: PERCENTAGE OF THE INDIAN WORKING FORCE ENGAGED IN AGRICULTURE, 1961-1971

(Per cent)

	1961	1971
Persons:		
Total	69.49	68.63
Rural	79.19	80.86
Urban	10.03	11.07
Males:		
Total	64.86	67.40
Rural	76.85	80.97
Urban	7.77	9.99
Females:		
Total	79.57	73.91
Rural	83.68	80.41
Urban	22.66	19.37

Source: Supplement, pp 30-31. Under 'Agriculture', we include cultivators and agricultural labourers. In this and the subsequent Tables, unspecified elements are included in non-agriculture.

'cultivators', 'agricultural labourers' and 'other workers'. It would appear that the share of agriculture in the total labour force went down between 1961 and 1971. In fact, the Census Commissioner claims: "The rising trend of working population generally in the non-agricultural sector seems to reflect the diversification of economic activity. Sectors other than the traditional ones have started to gradually absorb more and more of the labour force."[2] It is important to note that this conclusion was reached with reference to the entire working force of males and females in rural and urban areas taken together. It will be obvious from Table 1 that, for rural, urban and total males the share of agriculture rose, while for rural, urban and total females the share fell. For persons, i e, males and females taken together, the share of agriculture *rose* in the rural and in the urban areas, but *fell* when we consider rural and urban areas together.[3] Further, we should remember that the available 1971 results relate to a narrower concept of 'worker' than the corresponding 1961 results. In view of all this, the Census Commissioner's conclusion cited above appears oversimplified and hasty

Until the results for 1971 for 'non-workers' reporting work as a secondary activity become available, the problem of comparability of the economic data of 1961 and 1971 will remain. But it is still desirable to devise methods of increasing comparability, as one has doubts as to the completeness of enumeration of the secondary activity of non-workers. A number of exercises of a Procrustean kind have been attempted, which fall under two broad heads: (i) those which try to stretch the 1971 working force to fit the 1961 concept,[4] and (ii) those which try to cut down the detailed 1961 data to fit the 1971 concept.[5]

A number of exercises of the former kind are possible if we make reasonable assumptions about the excluded segment of the 1971 working force. For example, we might assume that changes in the age-structure led to a decline in the overall participation rate from 43 per cent to 40 per cent over the last decade. We could further assume that 85 per cent of the workers so added work in agriculture. This is a reasonable assumption to make since such workers would be mainly rural females working for short hours generally in agriculture. These assumptions yield a share of agriculture of 71.27 per cent for 1971. This would imply a rise in the share of agriculture over its 1961 level of 69.49 per cent.

TABLE 2A: PERCENTAGE OF CULTIVATORS AND AGRICULTURAL LABOURERS IN THE MALE WORKING FORCE IN THE INDIAN UNION AND STATES, 1961-1971: RURAL AREAS

	Cultivators		Agricultural Labourers		Cultivators *plus* Agricultural Labourers	
	1961	1971	1961	1971	1961	1971
India	61.89	56.05	15.32	24.92	72.21	80.97
Andhra Pradesh	49.24	43.78	24.05	31.39	73.29	75.17
Assam*	69.40	65.59	4.77	10.66	74.17	76.12
Bihar	59.26	51.55	21.15	35.63	80.41	87.18
Gujarat	63.15	59.21	14.81	22.43	77.96	81.64
Jammu and Kashmir	83.84	76.10	1.67	3.47	85.51	79.57
Kerala	26.43	25.47	14.90	28.40	41.33	53.87
Madhya Pradesh	68.12	65.08	15.45	21.73	83.57	86.81
Madras (Tamil Nadu)	54.13	45.77	17.10	30.80	71.23	76.57
Maharashtra	56.95	51.80	23.85	29.90	80.80	81.70
Mysore	65.33	54.43	14.01	24.42	79.34	78.85
Orissa	64.71	56.62	15.22	26.74	79.93	83.86
Punjab*	64.32	59.03	9.24	19.77	73.56	78.86
Rajasthan	78.92	74.90	4.10	8.33	83.02	83 23
Uttar Pradesh	71.99	67.27	9.74	18.89	81.73	86.16
West Bengal	53.70	45.47	19.37	32.49	73.07	77.96

Notes: The 1961 working force data relate to workers aged 15 and over and are taken from the B-I Tables in Census of India, 1961, Volume 1, India Part II-B (i), General Economic Tables, Delhi, 1965. The 1971 data relate to workers of all ages and are taken from the Supplement.

* Assam includes Meghalaya and Punjab comprises present-day Haryana, Himachal Pradesh, Chandigarh, and Punjab.

TABLE 2B: PERCENTAGE OF CULTIVATORS AND AGRICULTURAL LABOURERS IN THE MALE WORKING FORCE IN THE INDIAN UNION AND THE STATES, 1961-71 : URBAN AREAS

	Cultivators		Agricultural Labourers		Cultivators *plus* Agricultural Labourers	
	1961	1971	1961	1971	1961	1971
India	4.96	5.32	2.07	4.67	7.03	9.99
Andhra Pradesh	6.77	6.05	4.89	7.28	11.66	13.33
Assam *	2.67	4.94	0.30	1.33	2.97	6.27
Bihar	6.43	8.55	2.44	9.30	8.87	17.85
Gujarat	5.65	5.73	1.44	3.47	7.05	9.20
Jammu and Kashmir	10.27	6.85	0.57	2.09	10.84	8.94
Kerala	3.70	4.62	2.50	8.08	6.20	12.70
Madhya Pradesh	6.21	6.54	1.32	3.89	7.53	10.43
Madras	5.81	5.13	3.29	6.02	9.10	11.15
Maharashtra	3.54	3.47	2.49	3.89	6.03	7.36
Mysore	10.34	8.50	3.82	6.48	14.16	14.98
Orissa	6.76	8.08	2.02	5.79	8.78	13.87
Punjab *	5.90	6.01	1.39	4.00	7.29	10.01
Rajasthan	8.74	12.10	0.86	3.22	9.60	15.32
Uttar Pradesh	4.52	5.72	1.05	4.17	5.57	9.89
West Bengal	0.86	1.57	0.84	3.03	1.70	4.60

Notes: The 1961 working force data relate to workers aged 15-59. For sources see Table 2 A.

* Assam includes Meghalaya and Punjab comprises present-day Haryana, Himachal Pradesh, Chandigarh and Punjab.

Alternatively, we could accept the existing 1971 estimates for the urban areas and assume that in the rural areas 55 per cent of males and 28 per cent of females engage themselves in economic activity.[6] This would imply a moderate decline in the rural participation rates over the decade. If we make the conservative assumption that 80 per cent of the male and 80 per cent of the female workers so added work in agriculture, we get a share of agriculture of 70.32 per cent in 1971 for males and females rural and urban — taken tother. For males, this implies a rise in share from 64.86 per cent to 67.66 per cent; while for females, there is a moderate decline from 79.57 per cent to 76.67 per cent. As we have noted earlier, the corresponding results for 1971 reported by the Supplement were 68.63, 67.40 and 73.91 per cent for persons, males, and females, respectively.

We could certainly construct many more such simple numerical models, but provided we agree that the revised aggregate participation rate would lie in the vicinity of 40 per cent and that the workers added to the working force would be mainly rural-females engaged in agriculture, it appears fairly certain that the final Census estimate will show a rise in the share of agriculture for males and for persons between 1961 and 1971.

We now examine the other approach, of cutting down the 1961 work force to 1971 dimensions. Sinha[7] and Shrinivasan and Sharma[8] have shown that, at the national and state levels, comparability can be attained for males by excluding from the 1961 data rural workers between the ages 0-14 and urban workers between the ages 0-14 and 60+. This seems a reasonable procedure in the case of males, because the excluded elements are likely to be marginal contributors to economic activity. In the case of females, however, no such simple correction factor exists because marginal workers are spread over a number of age groups. Since the 1961 figures give us the broad distribution of workers in each of the broad age groups — 0-14, 15-34, 35-59 and 60+ — it is possible to estimate the share of cultivators and agricultural labourers in the now truncated 1961 working force by rural-urban residence and to compare them with the available figures for 1971. The results are presented in Tables 2A, 2B, and 3.

TABLE 3: PERCENTAGE OF CULTIVATORS AND AGRICULTURAL LABOURERS IN THE MALE WORK FORCE, RURAL AND URBAN, 1961-1971: INDIAN UNION AND THE STATES

	Cultivators		Agricultural Labourers		Cultivators *plus* Agricultural Labourers	
	1961	1971	1961	1971	1961	1971
India	52.00	46.35	13.02	21.05	65.02	67.40
Andhra Pradesh	42.86	37.68	21.18	27.48	64.04	65.16
Assam *	63.48	59.76	4.37	9.86	67.85	69.62
Bihar	54.72	47.29	19.54	33.02	74.26	80.31
Gujarat	49.29	45.03	11.59	17.41	60.88	62.44
Jammu and Kashmir	73.05	64.49	1.51	3.24	74.56	74.56
Kerala	23.20	22.12	13.14	25.14	36.34	47.26
Madhya Pradesh	59.88	56.62	13.57	19.15	73.45	75.77
Madras	42.60	34.50	13.80	23.92	56.40	58.42
Maharashtra	41.16	36.17	17.54	21.49	58.70	57.66
Mysore	54.28	44.35	11.96	20.48	66.24	64.83
Orissa	60.85	52.69	14.34	25.04	75.19	77.73
Punjab *	53.46	48.43	7.78	16.60	61.24	65.03
Rajasthan	69.09	65.27	3.65	7.54	72.74	72.81
Uttar Pradesh	64.11	59.11	8.73	16.93	72.84	76.04
West Bengal	39.06	33.60	14.24	24.53	53.30	58.13

Notes: For sources etc see Tables 2A and 2B.

* Assam includes Meghalaya and Punjab comprises present-day Haryana, Himachal Pradesh, Chandigarh and Punjab.

TABLE 4: SHARE OF AGRICULTURE IN THE MALE WORKING FORCE, RURAL AND URBAN 1911-1971: INDIAN UNION AND THE STATES

	1911	1921	1931	1951	1961	1961	1971
India	66.7	67.7	65.9	66.5	64.9	65.02	67.40
Andhra Pradesh	61.3	61.7	55.0	65.3	62.9	64.04	65.16
Assam *	69.3	69.2	66.0	67.7	68.9	67.85	69.62
Bihar	78.4	81.1	79.0	82.7	73.4	74.26	80.31
Gujarat	58.7	57.1	60.5	56.8	61.5	60.88	62.44
Jammu and Kashmir	72.7	73.2	69.8	—	74.3	74.56	67.73
Kerala	48.5	46.5	39.3	48.4	36.0	36.34	47.26
Madhya Pradesh	67.5	70.2	72.7	75.8	73.4	73.45	75.77
Madras	66.3	65.8	59.9	58.6	56.2	56.40	58.42
Maharashtra	63.1	59.0	60.6	59.8	58.8	58.70	57.66
Mysore	65.5	65.5	63.2	66.6	65.9	66.24	64.83
Orissa	74.1	74.1	74.4	74.2	74.9	75.19	77.73
Punjab **	59.1	59.7	62.3	64.0	60.3	61.23	64.88
Rajasthan	59.6	61.3	63.3	69.5	72.2	72.74	72.81
Uttar Pradesh	71.2	75.2	73.3	71.6	72.7	72.84	76.04
West Bengal	60.3	60.4	56.8	51.0	53.2	53.30	58.13

Notes: Except for the last two columns, the figures are from *Census of India, 1961*, Paper Number 1 of 1967, Delhi, 1968. The last two columns are from Table 3 above; for details see Table 2A and 2B above.

* Assam includes Meghalaya.

** Except for the last two entries, which relate to present-day Haryana + Himachal Pradesh + Chandigarh + Punjab, the other figures in this row relate to Punjab as it was in 1961.

The most important conclusion that emerges is that the exclusion of 'marginal' workers in 1961 does not significantly alter the share of agriculture in the male working force, for India as a whole or for the individual states, for rural areas or for urban areas, or for rural and urban areas taken together. It would, therefore, appear that the additions which will be made to the 1971 work force on the basis of the tabulation of secondary activity are unlikely, even if complete, to alter significantly the shares of males; for females, the impact is difficult to predict. 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. Questions regarding long-term trends are generally answered on the basis of the data for males; in that context we already have the results with us and can consider the broad pattern of change in India and its states: 1961-1971 as also 1911-1971.

In the case of rural males, we find that the proportion of cultivators declined and the proportion of agricultural labourers rose in all the states considered. The net result was a rise in the share of agriculture in all the states, except Jammu and Kashmir and Mysore where it declined. For urban males, the share of agriculture rises in every state except Jammu and Kashmir. For rural and urban areas, taken together, the share of cultivators declines and that of agricultural labourers rises in all the states considered. In most states the share of agriculture rises over the decade 1961-1971: Jammu and Kashmir, Maharashtra and Mysore are exceptions to this rule.

It is important to look at the changes in the share of agriculture in the longer period, 1911-1971, as a comparison of just the 1961 and 1971 figures could be misleading. In Table 4, we present the results for rural and urban areas, taken together, for cultivators plus agricultural labourers for the Indian Union and the states. For the Indian Union, the position is clear: the share fluctuated between 65 per cent and 67 per cent over the 60-year period. In Bihar and Kerala, the 1971 share seems to be more in line than the 1961 share. The decline in agriculture's share in Jammu

and Kashmir and the rise in its share in West Bengal, during 1961-1971, seem rather sharp. Otherwise, the results seem to conform with expectations. A secular decline in the share of agriculture in Tamil Nadu, Maharashtra, and perhaps West Bengal, are perceptible as also a rising trend for Orissa and Rajasthan.[9]

It is tempting, at this stage, to hazard guesses regarding the causes of the sharp decline in the share of cultivators and the even sharper rise in the share of agricultural labourers in most states between 1961 and 1971. In the case of males, at any rate, it can no longer be contended[10] that the decline in the share of cultivators reflects the exclusion of marginal workers (who were presumably mainly cultivators), as our own corrections for 1961 do not materially alter the picture. Other arguments — e g, that there was a priority accorded to cultivation, either in the questioning and/or in the tabulation — are plausible but their impact is difficult to evaluate. Maybe, when we have the detailed age data, the results on secondary activity, and other supporting data, more can be said on this question.

In conclusion, it is important to note that, even for males, while we do have a broad and fairly comparable industrial distribution for 1971, we do not know the magnitude of the unspecified component which has been bracketed with non-agriculture. If the unspecified element in 1971 should turn out to be much smaller than in the earlier Censuses (when it was of the order of 3-5 per cent of the working force), then many of the results we have obtained might get upset, when we allocate some proportion of the unspecified in each Census to agriculture.[10]

Notes

1 A Chandra Sekhar: Census of India, Series 1, India, Paper 1 of 1971, Supplement, Provisional Population Totals, Delhi, 1971, p 29. (Hereafter referred to as 'Supplement'.)
2 Supplement, p 9.
3 This is noted by Visaria. See P M Visaria: "The Provisional 1971 Census Data on the Working Force" — an unpublished paper read at the Seminar on the First Results of the 1971 Census of India, at the Institute of Economic Growth, Delhi, November 22-23, 1971, jointly sponsored by the Indian Association for the Study of Population and the Institute of Economic Growth. An earlier version of my paper was presented at this Seminar, and I am grateful to the organisers for permitting me to publish this revised draft.
4 Visaria, *op cit*, and my own preliminary paper fall in this category.
5 See J N Sinha: "A Rational View of Census Economic Data", and K N Shrinivasan and R N Sharma: "On Making Comparisons of the Data on Economically Active Population Collected in the Censuses of India, 1961 and 1971". (Both read at the Seminar mentioned above.)
6 According to the Supplement, the rate for rural males declined from 58.22 per cent to 53.55 per cent, and for females from 31.40 per cent to 14.55 per cent over the decade. See Supplement, Statement 9, p 29.
7 Sinha, *op cit*.
8 Shrinivasan and Sharma, *op cit*.
9 This is in conformity with an earlier result for the period 1911-1961 obtained by the author. The 1971 figures, however, upset the picture got for the earlier period in the case of Kerala. Partly, this is due to differences in the treatment of unspecified in this and the earlier study. See J Krishnamurty: "The Industrial Distribution of the Working Force in India, 1901-1961: A Study of Selected Aspects", Ph D thesis, University of Delhi, 1971 (unpublished), especially chapter 6.
10 See Krishnamurty *op cit*, chapter 2, for a discussion of allocation procedures for the unspecified in the Indian Censuses.

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Violent and Non-Violent Approaches to Revolution

A Cross National Study

Súsan Hacker

This study attempts to pursue two related avenues of inquiry.

First, there is a comparison of the theories of revolutionary action put forward by Gandhi and Fanon.

Second, partly to ensure that psychological speculation is not allowed to become a surrogate for political analysis and partly to guarantee a measure of much-needed empiricism, there is an examination of the testing out of these theories in specific areas of conflict: India between the wars, South Africa, and in the USA.

In the concluding section, some major issues emerging from the analysis are discussed.

LUTHER KING once made the point that "There is a kind of tension that is both healthy and necessary for growth".[1] Revolutionaries are concerned with this tension as they endeavour not so much to create friction as to kindle within a situation the tension which, though masked or unexpressed, is already present. Their problem is essentially one of relating a mode of activity to a particular level of consciousness; therefore, the adoption of violence or non-violence does not take place in a vacuum, but rather is part of a total definition of the situation. Thus, within the dialectical situation of the revolutionary struggle itself, a second dialectic is in process—that of the participants as they measure their ideas and actions against the relativistic, but not arbitrary, experience of reality. The simple, dialectical model of conflict becomes, on closer scrutiny, increasingly fragmented, complex, irreducible and dynamic.

Attempts to penetrate this picture of complexity and to handle the cross-cutting continuance of the revolutionary situation are confronted by a number of pitfalls. Firstly, there is the temptation to resort to psychological reductionism; in other words, to elevate the importance of 'Men in History'. If it is true that ideas, movements, and interpretations of contemporary situations are often grouped around and attributed to a single man, it is important to remember that "great leaders" may become great precisely because they have experienced the revolutionary struggle of their people in both a personal and a representative way. Thus the need is to examine the dynamics of the struggle in detail rather than to explore the early childhood of significant figures. A second pitfall is the tendency to neglect basic, empirical foundations and to indulge in unsubstantiated speculation, largely divorced from the concrete experiences of individual case-studies.

In an attempt to avoid these and other pitfalls, this study is structured around two related avenues of inquiry. Firstly, there is a comparison of the theories of revolutionary action put forward by Gandhi and by Fanon. Secondly, partly to ensure that psychological speculation is not allowed to become a surrogate for political analysis, and partly to guarantee a measure of much-needed empiricism, there is an examination of the testing out of these theories in specific areas of conflict: India between the Wars, South Africa, and contemporary liberation struggles in Portuguese Africa, and in the USA. These two lines of approach will interpenetrate one another in the concluding section, where a number of key questions emerging from the analysis will be discussed.

I

Theories of Violence and Non-Violence

(A) Gandhi and 'Satyagraha'

If 'great men' are to be understood as in some way representative of the 'identity' of revolutionary struggle of their people, then Gandhi can be assessed not only as an individual and a theoretician, but also as a symbol for people confronted by a particular set of problems. Effectively the arch-disciple, if not the primo-genitor of non-violent direct action, Gandhi gained the conviction through his experience as a lawyer that the true mission of that profession was to "unite parties riven asunder".[2] From this small revelation, he went on to absorb, select, and fashion a synthesis from a number of influences, ranging from traditional Hinduism through the Sermon on the Mount to Tolstoy and Ruskin. Yet, in spite of taking part at the turn of the century in an early campaign of non-violent resistance in South Africa, he remained basically optimistic as to the integrity of British Colonial Rule, and, indeed, demonstrated this somewhat misplaced faith by raising ambulance corps during both the Boer and First World Wars.

By 1918, Gandhi had changed his mind: "I came reluctantly to the conclusion that the British connexion had made India more helpless than she ever was before, politically and economically."[3] The British connection, then, must severed, and this amputation Gandhi hoped to achieve not through traditional forms of warfare but through a new pattern of action which would allow for a 'basic tension' to hold between the ability of each participant in the struggle to stand true to his principles and his continued consciousness that his moral assessment of the situation might be wrong. To this end, Gandhi evolved 'Satyagraha', or 'holding firmly to the truth', an instrument of action which was to operate both at the individual and the communal level, and which was to pervade the whole of India, to embrace all its inbicacies and contradictions in one vast experiment with truth.

Satyagraha excluded the use of violence because, according to Gandhi, "man is not capable of knowing the absolute truth, and therefore not competent to punish."[4] Truth was to be pursued via non-violence in its dynamic condition, meaning conscious suffering, but ideally, this suffering was not to be of the weak but of the strong, and would for its execution require the positive attribute of courage, sustained by a high degree of discipline, a code of conduct, sharing of responsibilities, and a system of pledge-taking.

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Emphasising what he saw to be the essential inter-relationship of means and ends, Gandhi viewed Satyagraha less as an end product than as a means for achieving agreement. It was dynamic; its goal was never explicitly laid down, and Gandhi provided no blue-print for a future society: "When society is deliberately constructed in accordance with the law of non-violence, its structure will be different in material particulars from what it is today. But I cannot say in advance what the Government passed wholly on non-violence will be like."[5] All that Gandhi supplied were a few generalisations: a return to the old village hegemony, though a newly democratised one; an "equitable distribution" of worldly goods; more emphasis on the value of constructive work and provision by the community for the "realisation of an individual's best potential".[6]

In many ways, Satyagraha can be seen as a dialectic between means and ends, a process to be made explicit by human action, rather than to be found as implicit either in the nature of things or in the progress of time. Its technique was based upon the admission of relative truths and the rejection of absolutes; 'truth', as judged by the fulfilment of human needs, was to emerge in the form of a mutually satisfactory solution, generated by the force of the opposing elements in the confrontation. Thus the Satyagrahi sought a victory not over his opponent but over the situation; he strove towards the best synthesis possible, representing not a 'lowering' of demands, as in a compromise, but a new, 'higher' level of adjustment. Similarly, Gandhi saw his task as one of pulling India along the road to self-identity by realising the potentialities of the dialectical situation, grasping hold of the creativity generated by conflict, and, with the help of civil disobedience, non-violence and voluntary suffering, of reaching outwards to a solution closer to the 'truth', and hence of mutual satisfaction to both sides.

(B) Fanon and 'Liberating Violence'

If Gandhi represents the quintessence of relativity, the still centre of a dynamic India, then Frantz Fanon is a very different man. If Gandhi was a seeker after dialogue, then Fanon preferred the clear, less eloquent language of the hand grenade. His writings, embodying one reaction to the African Revolution and built on his experiences in Algeria and in other parts of the continent, maintain a basic tension: that of being descriptions of processes already playing themselves out, while also being prescriptions for future patterns of decolonisation. In 'The Wretched of the Earth', perhaps the culmination of his work, Fanon steps back from the Algerian War and surveys the predicament of the Third World in general, while still in some ways offering the Algerian revolution as a model for the whole of Africa.

Perceiving the colonial world as one divided into compartments, Fanon emphasises the need to examine this system of compartments in order to reveal the line of forces it implies, and to mark out the pattern on which the decolonised society will be organised. Within this compartmentalised world, where all outlets for creativity are blocked, and where human relationships are systematically dehumanised and stereotyped, quests for truth as understood by Gandhi cease to have much relevance: "The 'fellah', the unemployed man, the starving native do not lay a claim to the truth, they do not 'say' that they represent the truth, for they 'are' the truth".[7] It is liberation, rather than truth, which is to be sought and found; unlike Gandhi, Fanon drew no distinction between liberation and violence since "Violence alone, violence committed by the people, violence organised and educated by its leaders, makes it possible for the masses to understand social truths, and gives the key to them".[8] Violence on a national scale dilutes the potency of tribalism and regionalism; it binds the community together, and commits each individual in the eyes of both of himself and of others. It represents the only authentic type of decolonisation, since Fanon sees non-violence merely as "an attempt to settle the colonial problem around a green baize table, before any regrettable act has been performed or irreparable gesture made, before any blood has been shed".[9]

Fanon recognises that, once used, violence has diverse effects. Ideally, it restores 'self-hood' to a colonised people as it "invests their characters with positive and creative qualities".[10] At the individual level, "violence is a cleansing force. It frees the native from his despair and inaction; it makes him fearless and restores his self-respect".[11] Yet as the struggle develops, subtleties and shades of grey begin to shroud the crystal-clarity of the violent landscape with uncertainty. Fanon's point is that violence may ignite a war of liberation, but by itself cannot sustain the struggle. Even the stage is reached where "the settler is not simply the man that must be killed. Many members of the mass of colonialists reveal themselves to be much, nearer to the national struggle than certain sons of the nation .... Consciousness slowly dawns upon truths that are only partial, limited and unstable".[12]

As the struggle becomes increasingly refined, the Dialectic of prescription and paraxis yields unanticipated pay-offs. In 'A Dying Colonialism', Fanon shows how the armed struggle generated a rapid modernisation of Algerian social structures and mental attitudes. The rise of revolutionary radio, in the form of the 'Voice of Free Algeria', created a new focus of allegiance and authority which quietly transcended men's traditional obedience to the head of the family. Moreover, Women's Liberation struck Algeria much earlier than it did the USA; all over the country, women stripped themselves of tradition and the 'haik', and stepped in to join the fight, to act on their own initiative, and even to make their own choices in marriage.

Fanon's model of national liberation thus contains both a psychological dimension, in which revolution is seen as an invigorating exercise in self-realisation and a political one, under which the spontaneity and violence of the peasantry and lumpenproletariat is gradually transformed into a more sustained political awareness, and in which national liberation synthesises with socialist revolution.

II

Application of the Theories in the Integrational Conflict

Here, then, stand the two opposing approaches to the revolution: on the one hand, Satyagraha measures and reassesses its strictly disciplined way forward in an atmophere of conciliation, while on the other, the purgative of people's revolution seeks, like Bigger Thomas, the black hero of Richard Wright's novel, 'Native Son', realisation and liberation through violence. How have these two approaches been applied within the reality of the international setting?

(A) Non-Violence in India

In action, Gandhi's various campaigns of non-violent resistance dealt with highly specific aspects of colonial rule, and were designed to move on to ever higher levels of intensity — for example, from negotiation to agitation, economic boycott, non-co-operation, and acts of civil disobedience. All partici-

pants in a campaign were, ideally, to undergo through preparation, so that they might know the grievances to be actually true, and see that the agreed-upon goal was just and attainable. All action was to be announced in full detail beforehand, together with a clear ultimatum binding to all and yet open enough for arbitration, to be resumed at any stage. An action committee was to be in charge of selecting suitable avenues of non-co-operation, basing its assessment on criteria not only of feasibility but also of symbolism within the general life of the community.

These measures formed the bones of any campaign. When well implemented, they could provide something of the 'leverage' implied by Satyagraha. Erik Erikson comments that Satyagraha had its origins in a technological imagery in which the body still formed part of the tool; the technique was very much the meeting of bodies, whether represented by Satyagrahis walking arm-in-arm, or gazing fearlessly into the eyes of an opponent: "At the beginning of an age ... when man is apt to sacrifice the threefold instrumentality of his body, his mind and his soul to the clever complexity of his own inventions, Gandhi ... strove for the naked clarity of all three".[13]

Gandhi's 'teasing and testing' of the great Adversary — Transvaal Government, British Government, all Government — proved to be a double-edged and delicately-balanced weapon; no satyagraha campaign ever achieved a complete elimination of physical violence. During the campaign against the Rowlatt Bills in 1919, non-violence broke down in many places after only the first day of mass demonstrations — a 'miscalculation' which Gandhi blamed on a lack of preparation. To improve local organisation, he despatched disciplined corps of Satyagrahis into the villages to move among and politicise the people, and, on the national level, he set about the task of revamping Congress into a more compact and efficient political organisation. This latter process brought about a marked degree of 'Indianisation'; members wore the Khadi, increasingly spoke Hindustani instead of English, and incorporated into the party's programme handspinning campaigns, and projects for the elimination of 'untouchability'. The danger was that by Indianising the INC, Gandhi might also be Hinduising, thus setting it firmly on a course which could only lead to friction with the Muslims.

During its lifetime, Gandhi's movement managed to excite both riots and ridicule —riots during many of the campaigns, and especially in 1919, and ridicule over the choice of targets for action, for example, the selection of the Salt Acts as the area of civil disobedience following Lord Irwin's unsatisfactory pronouncement on independence in October 1929: "salt suddenly became a mysterious word, a word of power .... We were bewildered and could not fit in a national struggle with common salt".[14] The number of people who effectively could defy the salt laws was limited, while home produced salt was likely to prove somewhat inedible. Moreover, it could be argued that "the spectacle of a few thousand Satyagrahis courting fines or a few weeks' imprisonment for petty infringements of the salt laws was hardly likely to convert the British. It was more calculated to excite their ridicule than their compassion".[15] Yet the 'March to the Sea', the culmination of the campaign, and in some ways the climacteric of Gandhian non-violence, bore with it a symbolic value which transcended its visible effects (which, undeniably, did not number many). Whatever national or international significance can be attached to this event, it at least managed to embrace people from widely differing economic, social and religious communities, a unity which Partition proved to be somewhat illusory, but which also inspired an emulation of Satyagraha techniques in at least two other centres of the revolutionary conflict — South Africa and the USA.

(B) Passive Resistance in South Africa

The espousal of Gandhian modes of activity by the ANC and Congress Alliance during the 1950s was influenced by Gandhi's early campaigns in the Republic, by the experience of Indian independence, and by the search among more militant elements of ANC's Youth League for a more comprehensive and truly mass movement. In previous decades, organisations working for change in South Africa had applied a number of approaches. The SACP had relinquished a traditional, Marxist class analysis in favour of a 'Black Republic' entente with African nationalism, and had during the 1930s and 1940s concentrated on building up non-European and multi-racial trade unionism.[16] The ICU, led by Clements Kadlie, began as a general union for non-European workers and rapidly developed during the 1920s into a mass political party, replacing the ANC as the chief political organ of the Bantu for a number of years but ultimately destined, by a series of weaknesses, for the scrapheap. The ANC, always placing more emphasis on political and constitutional types of approach than an analysis of a more economic nature, had, from the 1920s onwards proved itself to be generally indecisive and consistently ineffective.

The Nationalist Party's accession to power in 1948 brought with it increased repression, including bans on multi-racial unionism and on the SACP; hence, key expressions of Dissent were being erased. Gandhian non-violent direct action thus, fitted in both with the Youth League's nascent 'all-African' ideology with its emphasis on the need for man's "complete realization",[17] and with the working space within which the Africans saw themselves to be confined by the repressive actions of the government. In the early 1950s, the leaders of the INC, the APO and the one time SACP joined with those of the ANC on a national co-ordinating committee which was to develop into the Congress Alliance, and which adopted 'passive resistance', the South African version of Satyagraha, as its basic mode of activity.

Passive resistance reached its peak in 1952 with the campaign for the repeal of the Pass Laws and other Acts central to the implementation of Apartheid. During this campaign, disciplined volunteer corps, under the direction of trained leaders, deliberately committed acts of civil disobedience — for example, entering an African location without a permit, or sitting on a 'Europeans Only' railway seat. Influenced by, if not permeated with, the only ethic of Satyagraha, registers generally sought to minimise bitterness and to avoid violence. During the first hundred days, more than 6,000 volunteers defied the laws, and firm control by the leadership coupled with discipline and good humour among the followers bode well for the future of the movements. However, an outbreak of rioting led to the suspension of the campaign. During the aftermath, the Government pursued a predictable path of retaliation: the Riotous Assemblies Act, the Suppression of Communism Act and the Public Safety Act all date from this period. Attitudes polarised and hardened; in many ways the passive resistance movement helped the Government tighten up its apartheid policy by providing an occasion "for the identification of the non-white political movements with Indian imperialism and world communism, thus intensifying the antagonisms of the whites".[18]

By the end of the 1950s, passive resistance was largely due redundant, a process given added impetus by events like Sharpeville: "If naked force was to crush every peaceful demonstration, it was futile to rely on non-violent methods".[19] Mandela's 'Spear of the Nation' movement signalled both the adoption of the sabotage tactic and a return on the part of some nationalist leaders to a recognition of the possible role of economic imperatives in the shaping of their situation, which tendency is clearly on display in the more overtly militant — and Marxist — ANC of the late 1960s and of today.

Yet sabotage, as well as passive resistance, has failed to bring South Africa to the conference table; both have failed, it must be admitted, to face the fact of the ruthlessness not only of successive Nationalist Governments but also of the power structure rooted in Johannesburg, in the City of London, and in Wall Street.

(C) Non-Violence to Violence: Case of the American Negro

However, even Wall Street has at times deemed it propitious to check its movements, freeze expansion, and wonder if all were well. Situated in the second area of conflict influenced by Gandhian ideas, the Wall Street network has in recent years been made all too painfully aware of the realities of revolutionary struggles and their implications for international high finance. The ramifications of the relationship between the revolutionary and the Western economic and political *status quo* have not failed to be grasped and exposed by Negro leaders. As Malcolm X put it: "All of Africa unites in opposition to South Africa's apartheid, and to the oppression in the Portuguese territories. But you waste your time if you don't realize that Verwoerd and Salazar and Britain and France could never last a day if it were not for US support".[20] Luther King assigned to the American Negro a Modal role in the world revolutionary struggle: "The hope of the people of colour in the world may well rest on the American Negro and his ability to reform the structure of racist imperialism from within, and thereby turn the technology and wealth of the West to the task of liberating the world from want".[21]

The Compartmentalisation within which the American Negro is at present encapsulated finds expression in the writings of contemporary black authors and poets; James Baldwin describes a universe which is "simply a sounding drum; there is no way, no way whatever ... to get through a life, to love your wife and children ... or to be loved. The universe ... has evolved no terms for your existence, has made no room for you ..."[22] Negro responses to this picture of deprivation have varied over time, while analyses of these Negro responses have tended to proceed down two parallel lines of approach: firstly, those which see the problem largely in terms of personal and political relationships, and which place prime emphasis on the Negro's lack of civil rights, and secondly, those which endeavour to unmask a firmly economic basis (and hence, solution) to the situation. The espousal of non-violence in the 1950s and 1960s has therefore been subject to different explanations. The psycho-political approach tends to see non-violence as in some way a 'natural' response, in tune with the spirituality of the 'Southern Black Tribe';[23] what it fails to do is to explain why an upsurge of militant activity took place at this time. The economic approach encompasses important structural changes taking place within American society — for example, the ending of the 'open door' immigration policy in the 1920s, which ensured that southern blacks would be the last set of immigrants to move into the northern industry, the growth of Negro buying-power during and after the second World War, and the extension of the franchise. Factors like these, as much as any latent 'spirituality', help to account for the precise timing of the non-violent campaigns of the 1950s.

Gandhian ideas reached the American Negro long before the eloquent Luther King rose to rekindle them into a new, all-American quest for truth. CORE dates from 1942 and consciously modelled on Satyagraha, aimed to utilise "organised, persistent and concerted educational and moral suasion methods"[24] to abolish all forms of racial discrimination. The first dramatic event in the Negro Revolution remains, however, the Montgomery Bus Boycott of 1955, in which King's services as a spokesman were first called upon: "In accepting this responsibility my mind ... was driven back to the Sermon on the Mount and the Gandhian method of non-violent resistance".[25] The Montgomery movement was significant in the "immense effect" it had no Negro opinion throughout the country; yet the new impatience it unleashed perhaps announced its own obsolescence.

The various groups within the non-violence movements — NAACP, NUL, SCLC, and CORE — shared several characteristics. Seeking integration into the white community, and very much oriented towards personal, individual relationships, they defined the problem of the Negro's lack of civil rights, and hence of political bargaining power. The groups received mass support, but were predominantly Southern phenomena, pursuing not so much self-sufficiency as the co-operation of progressive white elites like the trades unions and the Democrats. This policy met with a certain degree of success — for example, favourable supreme Court rulings — but this was weakened by the apparent inability of the Court to get its rulings enforced. King's movement grew in impetus during the late 1950s, and 1960s, helped by infusions of willing white students already organised into the student's Non-Violent Co-ordinating Committee (SNCK), and mass demonstrations and 'Freedom Rides' were dispelling Southern torpor. The culmination of these activities — the March on Washington of 1963 — perhaps has its parallel in Gandhi's ritualistic March to the sea of some thirty years before, yet despite the passage of the Civil Rights Bill (1964) and despite King's faith in the achievements of non-violence, rioting and disaffection continued to mount. The political orientation of the non-violence movement failed to tackle not only the economic dimensions of the Negro situation but also the psychological need increasingly felt by Negroes for some process of regeneration and liberation, initially at least of an overtly racial type.

By the late 1950s the racial response to the situation was finding expression in the tracts and activities of the Black Buslims. A new source of myths and ideology was thus, being established, to rival the traditionally pacifist teachings of the Southern Negro Churches and the non-violence campaign. Black Muslims explicitly rejected white society and "the modern Babylon of the United States", but their apocalyptic visions of the 'inexorable conquest' by the blacks of the "white devils" both made violence inevitable, and, in practice not often used, since Negroes were to retreat into, and build up their communities. The Muslims built up strong urban ghetto organisational ties, and had an especially strong appeal for the umpenproletariat and ex-convicts like Malcolm X.

Having for the greater part of his

life acted upon the maxim that "It's the hinge that squeaks that gets the grease", Malcolm X was never a likely candidate for participation in a campaign of non-violence. His views on Christianity and non-violence were, however, clear: "This white man's Christian religion further deceived and brainwashed this 'Negro' to always turn the other cheek, and grin, and scrape, and bow, to be humble... and to take whatever was dished out by the Devilish white man; and to look for his pie in the sky, and for his heaven in the hereafter, while right here on earth the slavemaster white man enjoyed his heaven."[26] For Malcolm X, non-violence meant, at best, a delayed solution and more probably, no solution at all. Even King, towards the time of his assassination, was using more militant language: "Non-violence is a powerful demand for reason and justice. If it is rudely rebuked, it is not transformed into resignation and passivity..."[27] Moreover, by conceding that "the cohesive, potentially explosive, Negro community in the North has a short fuse and a long train of abuses,"[28] King was both admitting the southern bias of his movement, and, perhaps, his abdication of the field.

The alternatives to non-violent direct action opened up by the Black Muslims encouraged Negroes in the 1960s to evolve new political frameworks, and to reassess their position in society. Here, 'Black Power' marked the beginning of a more profound analysis of the white power structure. In this analysis, the use of the colonial metaphor challenged the long-accepted cliche called the 'American Dilemma';[29] American society began to be seen less as one frustrated by a fundamental dilemma as one assigning the Negro, in a very positive way, to a specific economic role. Out of the experience of Black Power emerged the more openly revolutionary Black Panthers, brandishing what was basically a class analysis of society. Violence was seen as a necessary corollary of this analysis; weakness in numbers was to be compensated for by an emulation of Third World guerrilla tactics.

III

Violence: Liberation Movements in Portuguese Africa

If Negro revolutionaries in America have tended to quote liberally from 'The Wretched of the Earth', then, Fanon's influence within his own continent has proved more difficult to gauge. David Caute has criticised Fanon for providing "a single vision for the continent, and a single solution,... his view of 'Africa' and its social formations remains unilluminatingly schematic".[30] If this is true, then Fanon's attempt to impose a single, blanket response has failed. Even within Francophone Africa, the Algerian pattern has not been repeated, forestalled largely by French neo-colonialism. Within the old British colonies, experiences of decolonisation, gave rise to a number of responses, including non-alignment, Pan-Africanism and African Socialism, but largely without the nation-wide violence prescribed by Fanon (Kenya was somewhat exceptional here).

However, to protray Africa as uniformly unreceptive to Fanon would be equally misleading. If we modify Caute's interpretation and see Fanon as specifically interested in those countries dominated by white settlers or threatened by total 'cultural assimilation' it becomes possible to accommodate his model to the differentiated experiences of liberation movements operating within varying patterns of colonial domination.

In many ways, striking similarities can be discerned between Fanon's theories and the type of activity adopted by revolutionary movements in Portuguese Africa. The existence of these movements has now largely dispelled the myth of the Luso-Tropical Paradise', wherein dwelt "happy Portuguese" of colour, "whose only pain was the yearning for their white mother country".[31] Those more intimately acquainted with the 'Paradise' knew that beneath this patina lurked virtual slave labour, economic exploitation, scanty health and education services, and an all-pervading atmosphere of repression. In addition to this, the Portuguese Government also had the habit of leasing out large tracts of land to foreign companies, "which not only acquired directly the lives of all Africans living within these leased areas".[32]

Unlike the more remote indirect rule favoured by the British the political framework provided by the Portuguese precluded the possibility of gradual process; Freedom Fighters were thus confronted by a choice between continued acquiescence or armed revolts. They selected the latter and extended it in increasingly revolutionary directions which included far-reaching programmes of democratisation, reaching from primary education to political leadership. Both for PAIGC and for FRELIMO, revolt by itself was not itself, since it was seen to lead only to a duplication of Portuguese structures under African elite control. The effect, the liberation movements were using the impediments of their environment to explore and illuminate those aspects of their secondary dialectic — the dialectic of theory and praxis — vital to the achievement of true liberation. Within this process, violence was acknowledged as a vital ingredient; as Cabral put it: 2 "If we... accept the principle that national liberation equals revolution, and is not simily a matter of raising a flag or singing an anthem, we shall find that there is and there can be no national liberation without the use of liberating violence..."[33] In this respect at least the movements were, consciously, modelling themselves on Fanon's theories; their experiences, and their consciousness of them were in many ways in tune with the prescriptions of revolutionary activity which Fanon provided.

IV

Conclusions

The process of drawing together the two avenues of inquiry pursued in this study — i e, the comparison of theorists and the examination of their theories in action — can be effected by the posing of a variety of questions, and, in its turn, it opens up still more areas for investigation. In the interests of simplicity, one basic question can be asked: Why was non-violence adopted in certain countries and at certain times, while in other situations it was explicitly rejected? Various explanations have been put forward. In the first place, analysts concerned to differentiate between patterns of colonial dominance[34] suggest that relations between Gandhi and the British Government were very different to those between oppressed and oppressor in the other case studies. Gandhi may have been able to identify and sympathise with the colonial government in a way and to a degree which would have been inconceivable in Portuguese Africa, and which proved to be impossible in South Africa. Perhaps the British maintained a regime in India very different from those supported by the Portuguese in Africa: a regime more remote from everyday

life, operating its administration through the age-old channels of repression of traditional India. Perhaps it was India, as much as the British, which Gandhi was fighting. Many of his campaigns were fought in order to keep open avenues of legal protest, for example, the struggle against the tightening up of 'law and order' implicit in the Rowlatt Bills. But in Portuguese Africa, and to some extent in South Africa, these channels did not exist in the first place, or had been forfeited too long ago.

Yet, variations in patterns of dominance and of repression should perhaps best be seen as questions of degree; even Gandhi accused the British of bringing to India a fourfold disaster, economic, political, cultural and spiritual.[35] In many ways, Gandhi bore with Mandela, Cabral, and Malcolm X the common task of the anti-colonial revolutionary — the transvaluation of the colonial condition "so that identity elements which nevertheless developed and which at the time seemed more or less accidental, ornamental, or expendable byproducts of history, are turned into insignia of such pervasive dominance that to neglect them would be a sin in the face of existence".[36] Such a transvaluation Gandhi perceived as his 'drama' or life-task; upon him was to fall the burden of accomplishing 'Hind Swaraj', of making India mistress of her own house, since only a people in command of itself could command respect and attain liberty. Under early British occupation all custom began to fail: for this reason, Gandhi attached much importance to the reintroduction of the spinning wheel into communities which had never made up for the loss of it: it became the symbol of a lost, and regained, identity.

A further area of explanation lies not so much in patterns of colonial domination or in the role of identity-building as in the actual structure of satyagraha itself, and especially in the observable gap between its thoeyr and its performance. Gandhi believed that his "dialectic of non-material suasion" was of universal application; he saw it as appealing both to the religious and to the secular mind, and, moreover, to practically every brand of prepackaged religion. Certainly, Gandhi was faced by a universal problem — that of the "inherent lack of discipline to be expected in colonised peoples and in exploited masses — a lack which may well lead to impulsive rioting when, for the first time, they recognise their potential strength".[37] Gandhi's method of tackling this problem was to impose or, rather, to instil the self-imposition of, discipline calculated to control illicit urges to "impulsive rioting". In contrast, Fanon's prescription entailed the permissive playing-out of such urges — a ritualistic exorcism ultimately to be abandoned in favour of more constructive activities. However, Satyagraha has achieved neither world-wide application nor a consistently high level of self-discipline; the individual case studies used in this analysis may help to explain this double failure.

In the case of South Africa, was non-violence unsuccessful as an approach because the heightened racialism and rigid compartmentalisation of the apartheid system precluded inter-party dialogue? Or was it perhaps because the non-whites, while numerically strong, were launching their campaigns from a position of organisational and tactical weakness — which, as Gandhi pointed out, renders non-violence futile? Leo Kuper lays the blame on the 'amsochism' of Satyagraha itself; in his view, voluntary self suffering on the part of non-white resisters was misconstrued by the whites, and interpreted either as an act of extreme imprudence, or as the result of viciousness, or error, or a subversive foreign influence.[38]

George Simmel's collectivity theory provides a further dimension to the question of white consciousness in South Africa.[39] Simmel maintained that in a situation where a conversion of one variety or another is being attempted, what is important is the structure of the social system: that is, whether the dominant and subordinate statuses are held by individuals or by collectivities. Where the rulers are grouped together into a collectivity, individuals within that group can slave their consciences by hiding behind the group decision, and where the rules, too, are perceived as a collectivity, the psychological recreation of suffering fails easily, since the sufferer is not a visible individual but only a totality. Thus, in South Africa, whites were generally indifferent towards non-white resisters of high status; these non-whites were described in the press and elsewhere not individually as highly respected professional men, but generally as Indians and natives. In contrast, reaction to the few white resisters was in terms of their individual personalities.

In the United States, too, Simmel's theory receives support: "Whites ... see the Negro not as a person, but as a problem. The more liberal recognise an injustice pleading for remedy; the less a threat requiring resistance..."[40] This depersonalisation works in reverse, and Negroes see whites not individually but as parts of a close conspiracy aimed at perpetuating racial dominance. Inexorably, for each race, the stereotype of the other gathers truth; for Malcolm X the seeds of racism are so deeply rooted in the white people collectively that "it is the collective 150 million white people whom the collective 22 million black people have to deal with".[41]

The limited applicability of Satyagraha, coupled with its failure to maintain high levels of self-discipline among its followers, points to the need for a more detailed examination of its basic assumptions, its orientation towards society, and its modes of activity. Both in the United States and South Africa, non-violence formed part of an essentially political and ethical evaluation of the situation, and action nearly always took plce within a 'constitutional' frame of reference. In the case of South Africa, this interpretation of reality led firstly to the pairing-off of the PACE from the ANC in 1958, because the ANC was seen to be moving towards "multi-racial liberalism" and "a union of the exploiters and the exploited" in which a "genuinely nationalist, socialist or democratic movement" would forever be repulsed",[42] and secondly, to an increase in repressive legislation. The new laws which were introduced after the passive resistance campaigns of 1952 and 1955 can be interpreted either as an indication of the existence of some "natural" stimulus-response mechanism, under which the whites, because feeling fearful and insecure, "had" to compensate for this by over-punishing, or as the recognition of and exploitation by, the government of a useful opportunity to further implement an already planned programme. The two approaches are mutually exclusive. Yet in their assumptions and in their implications they represent the differences between reaction and action, between the notion that there is something inherently indestructible in apartheid and the belief that there was something inherently wrong with passive resistance as an instrument for change.

The experience of the American Negro in the 1950s and 1960s suggested not only that the power structure against which he was to struggle was

exremely robust but also that non-violence was inadequate tool with which to handle that struggle. But should the progression from non-violence to urban guerrilla warfare be understood simply as an act of will, or, alternatively, simply as a reflection of the working space allocated to the Negro by structural and political constraints? The burden of this essay is that consciousness and the external reality shaping the scope and depth of that consciousness should not be separated. In the case of revolutionary situations, this unity is effected by a continuous dialectic between men's ideas and their application in reality, and, within this process, the mode of activity selected is nothing more than an expression of the total definition of the situation. Thus, the changing pattern of Negro responses can be interpreted as evidence of a deepening awareness on the part of the Negro of the true nature of his situation; the non-violence of the simple ethico-political analysis and the search for political parity was gradually exchanged (more rapidly in the urban areas) for the 'necessary' violence accompanying a structural and economic analysis of society.

In its attempt to discipline and direct the tension "both healthy and necessary for growth", and to get to grips with the complexity of transacting continua within the revolutionary situation, Gandhian non-violence seems largely to have failed. In contrast, people's wars, whether inspired by Fanon or by Mao, today transform the Third World into a living, moving canvas, inscribing upon it the message that violent insurrection is meaningful, that it has visible successes. In many ways the philosophical assumptions of Satyagraha, and the definition of reality which these inspired, led to a situation in which resisters suspended *above* reality; their own consciousness of their moral superiority and their determination not to fight back held them aloof from any active participation in the reshaping of their conditions, except on the occasions where discipline gave way to rioting.

What Fanon saw was that violence could be a constructive act for people newly aware of the essential changeability of their environment. If it was only a starting point, to be superseded by more permanent forms of action, violence could nevertheless achieve that unification of a people with their conditions of existence necessary for the full development of revolutionary tension. While the highly differentiated experiences of liberation movements facing situations continue to make it unlikely that either Gandhi's or Fanon's model will be followed exactly, it is the conclusion of this analysis that the latter approach, because more able to encompass the many dimensions — economic, political psychological — of the revolutionary struggle, will in the run prove of greater relevance.

List of Abbreviations

ANC: African National Congress
APO: African Political Organisation
CORE: Congress of Racial Equality
FRELIMO: Front of the Liberation of Mozambique
TCU: Industrial and Commercial Workers' Union.
INC (India): Indian National Congress
INC (S Africa): Indian National Congress
NAACP: National Association for the Advancement of Coloured People
NUL: National Urban League
PAU: Pan-African Congress
PAIGC: African Party for the Independence of Guinea and the Cape Verde Islands
SACP: Communist Party of South Africa
SCLC: Southern Christian Leadership Conference
SNICK: Students' Non-Violent Co-ordinating Committee

Notes

1 M Luther King: "Chaos or Community?" (London, Penguin, 1969), p 91.
2 Gandhi, quoted in P Moon, "Gandhi and Modern India" (London: English Universities Press, 1968), p 19.
3 Quoted in P Mayer (ed) "The Pacifist Conscience" (London: Penguin, 1966), p 212.
4 Quoted in J V Bondurant: "Conquest of Violence" (London: Oxford University Press, 1958), p 16.
5 Quoted, *ibid*, p 147.
6 Quoted, *ibid*, p 162.
7 Frantz Fanon, "The Wretched of the Earth" (London: Penguin, 1969), p 38.
8 *Ibid*, p 118.
9 *Ibid*, p 48.
10 *Ibid*, p 73.
11 *Ibid*, p 74.
12 *Ibid*, pp 116-117.
13 E H Erikson, "Gandhi's Truth" (London: Faber, 1970), p 198.
14 Jawaharlal Nehru, quoted in Moon, *op cit*, p 139.
15 Moon, *op cit*, p 140.
16 For an excellent history of the SACP see E Roux: "Time Longer Than Rope" (University of Wisconsin Press, 1966).
17 M Benson: "South Africa — The Struggle for a Birthright", (London: Penguin, 1966), pp 84-5.
18 L Kuper, "Passive Resistance in South Africa" (Yale University Press, 1960), p 208.
19 Benson, *op cit*, p 236.
20 "The Autobiography of Malcolm X" (London: Penguin, 1968), p 470.
21 King, *op cit*, p 60.
22 J Baldwin: "The Fire Next Time" (London: Michael Joseph, 1963), p 41.
23 *Ref* L E Lomax: "The Negro Revolt".
24 Quoted in Mayer, *op cit*, p 365.
25 Quoted, *ibid*, p 406.
26 Malcolm X, *op cit*, p 257.
27 King, *op cit*, p 29.
28 *Ibid*, p 29.
29 *Ref* C Carmichael and C V Hamilton: "Black Power" (London: Penguin, 1969), especially Chapter I.
30 D Caute: "Fanon" (London: Fontana, 1970), p 88.
31 B Davidson, quoting a Portuguese official in "The Liberation of Guinea" (London: Penguin, 1969), p 9.
32 E Mondhlane: "The Struggle for Mozambique" (London: Penguin, 1969), p 29.
33 Quoted in Davidson, *op cit*, p 77.
34 *Ref* P Mason: "Patterns of Dominance" (Oxford University Press, 1970).
35 *Ref* Erikson, *op cit*, p 265.
36 *Ibid*, p 267.
37 *Ibid*, p 334.
38 Kuper, *op cit*, pp 79, 84-6, 89.
39 Simmel's theory is discussed in some detail in Kuper, *op cit*, pp 88-89.
40 R Segal: "The Race War" (London: Penguin, 1967), p 289.
41 Malcolm X: *op cit*, p 479.
42 Peter Rabroko, PAC spokesman, *Quoted in Benson, M, op cit*, p 213.

Kamani Engineering Looks Forward

ACCORDING to the preliminary results for the year ended September 30, 1971, Kamani Engineering expects an improvement in profit over that of the previous year. Sales during 1970-71 increased by approximately 8 per cent over those of the previous year.

The company was able to do better, in spite of the adverse effect of the steel shortage during the first six months of the year. During those first six months, however, production of towers was 12.5 per cent lower than in the corresponding period of the previous year. As a result of the export efforts made by the company, it was able to obtain favourable allocation of steel, which yielded better performance in the last six months. The improvement in production in the last six months was 14.6 per cent over the corresponding period of the previous year.

The company has orders on hand worth nearly Rs 33 crores, including export orders of nearly Rs 24 crores, as on October 1, 1971. At the moment, the company has under negotiation orders for nearly Rs 45 crores.

Differential Rates of Interest

A Note

N K Chandra

THERE are essentially two policy issues involved in the current controversy over differential rates of interest (RI): (a) Should the larger undertakings (LU) in the organised private sector pay a higher RI than at present? (b) Should the smaller undertakings or units (SU) in industry or in agriculture pay a substantially lower RI than the former group?

Two types of theoretical frameworks can be used in answering the above questions: (i) overall optimality for the economy as a whole and (ii) the 'second best' criterion which, in the present context, implies an improvement over the existing state of affairs. The first framework is obviously unsuitable. A lump-sum redistribution of income and wealth is one of its prerequisites which can be implemented only after a successful social revolution or during a protracted war, civil or foreign.

Current Scene

Since the argument is to be conducted along the 'second best' lines, let us briefly describe the essentials of the current scene. With heroic simplification we assume the following RIs: (a) For the LU 10 per cent on borrowings from institutional sources, 20 per cent from the unorganised sector and 5 per cent on export credit; (b) for individual agriculturists, large or small, 10 per cent on bank advances; (c) for the urban SU 10 per cent on bank credit, 5 per cent on long-term credit from institutional sources and 30 per cent on credit from the unorganised sector; (d) for the rural SU, in particular, small farmers, loans are in kind at an RI of 75 per cent (i e, for a loan of 1 maund of paddy to tide over the 4 pre-harvest months, total repayments amount to 1.25 maunds); (e) for the co-operative sector, mainly run by the affluent in town and country, 7 per cent from institutional sources.

Given the wide disparity in RI in various fields, and given the preponderance of the unorganised sector in the overall credit structure, the economy-wise equilibrium level (i e, one equating total demand and supply) of RI is likely to exceed 20 per cent. If the LU is obliged to pay 20 per cent on all institutional credits what are the likely consequences? (1) If the cost-plus theory of pricing is valid, prices may rise. The theory, however, has little logic insofar as it fails to explain how the margins over costs are fixed; nor can it explain the wide variations in the margins over time, space and sectors of the economy. Even assuming the theory to be correct, the likely effect on prices are small. According to two recent studies of company finances published in *The Economic Times* of September 13 and 17, 1971, interest costs amount to between 4 and 4½ per cent of total costs of production in the chemical and cotton textiles industries. Hence even if the RI is doubled, the once-for-all price-rise should not exceed 4½ per cent, which in the Indian context is pretty small. In practice it ought to be smaller, eating up a part of the profit margin, since the consumer demand curves are unlikely to be perfectly vertical. (2) Exports may suffer if RI shoots up from 5 to 20 per cent. Similarly, if long-term RI is jacked up private investments may decline sharply. The present writer has great misgivings about the fundamentals of the whole range of our policies towards industrialisation, foreign trade, agricultural mechanisation, new agricultural strategy, etc, and would not be too sorry if the present set-up, which is benefiting only a handful at the top, is given a big jolt. Accepting, however, the present priorities, concessional RI for exports or for capital formation can be continued while the banks' contribution to the working capital of the LU is priced much higher. Thus there is little logic in continuing the current practice of subsidising the LU by charging a very much lower RI than that dictated by the overall supply and demand conditions.

Optimality Criterion

If the LU pays 20 per cent, should not the SU pay the same? The case for a uniform RI can be easily derived from the optimality criterion which we have discarded earlier. Apart from the impossibility of lump-sum redistribution, there are other difficulties. Competitive justice requires that large and small farmers, for instance, should buy all inputs and sell outputs at identical prices, that there be no extra-economic power wielded by the former over the latter, that educational and other opportunities be the same for the two groups and so on. None of these conditions are fulfilled in reality. Hence there are no positive arguments for a uniform RI.

Charging the SU a lower RI will partly counteract the relative advantages currently enjoyed by the LU. Further, from an employment point of view, there is a strong case for subsidising the SU, Investment per worker in the 'factory' sector is currently Rs 40,000 as against under Rs 2,000 for the small-scale sector (*vide* the *Reserve Bank of India Bulletin*, July 1971 and *The Economic Times* of October 29 and November 7, 1971). The faster the SUs grow *vis-a-vis* the LUs, the less acute will the unemployment problem b and the larger will be the long-term benefits for the economy. Once this is accepted, it is easy enough to show (i) why there should be a significant diversion of funds from the LUs to the SUs and (ii) why a low RI for the latter is imperative.

Negative Argument

Finally, there is a negative argument which would favour a uniform RI. If, under the differential RI, the SUs are charged only 1 per cent RI by the banks, to take an extreme case, while the unorganised sector charges 75 per cent, then there may be too many *benami* borrowers from the rural rich who will pocket the difference of 74 per cent, thereby subverting the whole scheme. The difference is somewhat smaller today at 65 per cent and would be still smaller at 55 per cent under a uniform 20 per cent RI. In each case the gap is very substantial, providing all the incentives for misuse of funds. Hence so long as an appreciable gap remains between the RI on the organised and the unorganised sectors, the danger of large-scale misuse will persist. To speculate on whether this tendency will marginally increase or decrease with small changes in the gap is as futile as the parallel debate on the marginal rates of income-tax: whether the latter is 90 per cent or 80 per cent or 70 per cent it is unlikely to affect the fortunes of the tax-avoidance industry.

Misuse of funds can be prevented only if most of the credit requirements are met through institutions so that the gap mentioned above is drastically reduced to 5 or 10 per cent. Institutions can meet all our credit requirements if there is a well-functioning co-operative or a bank in every cluster of, say, 5

villages. Since our villages number half a million, at least 100,000 of such institutions would be necessary. It is extremely doubtful whether this target can be fulfilled in the foreseeable future.

In conclusion we cannot but remain sceptical. We doubt whether the LU will allow themselves to be charged what they undoubtedly consider to be confiscatory rates. For the small man the essential problem is one of availability of credit—even if he gets it at 20 per cent it will be a great relief compared to the present; it would be better still if he can get it at 1 per cent or 5 per cent. Despite fat tomes devoted to the problems of the small sector, industrial or agricultural, over many decades, not a glimmer of light is visible on the horizon.

World Trade

THE trade of industrial countries in the third quarter of 1971, as measured by exports, rose almost 15 per cent from the year-earlier levels to an estimated annual rate equivalent to $ 231,000 million, according to the latest issue of *International Financial Statistics*, published by the International Monetary Fund. The figures were affected by changes in effective exchange rates of individual countries after the floating of major currencies, the introduction of the US import surcharge in the middle of the period, and the influence on US trade activity of the anticipation of an East and Gulf Coast dock strike besides the effects of the actual West Coast dock strike. The third-quarter 1970 export increase for the industrial countries was slightly under 14 per cent.

IFS figures indicated that total export growth of the 14 industrial countries in the third quarter of 1971, compared to the same 1970 period, was substantial enough to produce a surplus in the trade balance of this group of countries with the rest of the world. The $ 231,000 million annual rate for exports, excluding shipping costs and insurance, compared with a third-quarter annual rate of imports of $ 229,300 million, including costs, insurance, and freight. For countries with floating exchange rates, trade figures are converted to US dollars, using the monthly average of actual daily exchange rates.

For the first nine months of 1971, exports of the industrial countries were 12.5 per cent above the level reached in the same period in 1970.

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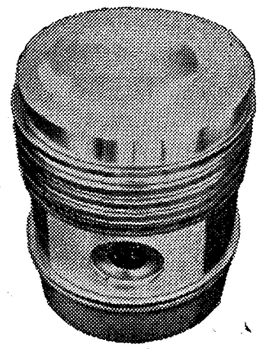
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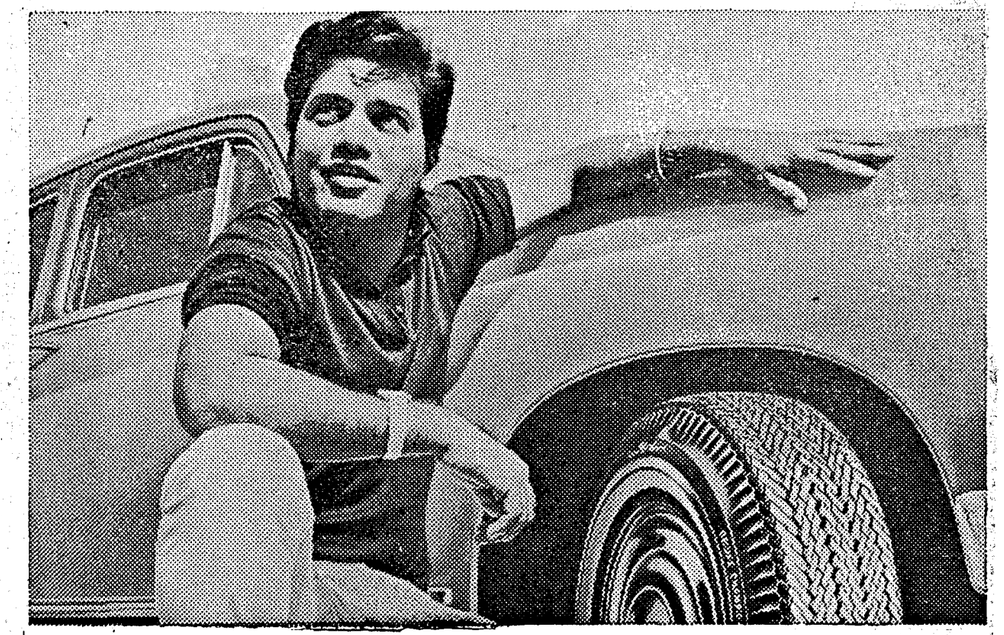
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Moonshine on Employment

OFFICIAL committees and commissions have by now standardised a technique of prolonging their profitable existence. The technique consists simply in submitting an 'interim' report after a decent period and then suggesting, on the strength of that, that they would take another year or so to come up with their 'final' report. There can be absolutely no other justification for the interim report submitted by the so-called Expert Committee on Unemployment. The Committee, according to the official summary of its report, "has set up one panel and five working groups to go deeper into one or more of the issues entrusted to it by the government". The reports of these bodies are yet awaited; in the meantime, the Committee itself has nothing worthwhile to say on the subject of its inquiry. And yet the interim report!

The recommendations of the interim report range from the truly trivial, such as that unemployed persons should be exempted from payment of application fees when applying for jobs, to the irrelevant, such as that the government should accept the suggestions of the Committee on Inland Water Transport of which, as it turns out, the chairman was B Bhagavati who is also chairman of the Expert Committee on Unemployment. For the rest, all that the Committee has done is to make a list of the programmes included in the Fourth Plan which, it feels, have a significant employment potential, add up the proposed investment on these and affix totally arbitrary figures of the likely employment from the different programmes. Since evidently the results did not appear impressive enough, the Committee goes on to recommend additional dollops of investment on each of the programmes — for instance, Rs 100 crores more for minor irrigation, another Rs 235 crores for rural electrification, Rs 110 crores more for road building and so on — and, by way of making an original contribution, adds a Rs 230-crore rural house-building programme. All this results in the impressive outlay figure of Rs 2,000 crores which by some mystical calculation would generate 4 million jobs "in the next two years". Since all the programmes have a construction bias and since employment in construction activity of any type is essentially temporary, the question is 4 million jobs for how long? Surely, it is more relevant to express the employment potential of these kinds of programmes in terms of so many man-days of employment instead of simply so many 'jobs'. The Committee evidently has no time for such simple, if basic, issues. Nor does it bother to examine what has been happening to those Fourth Plan programmes on which it pins its hopes in the first three years of the Plan. Indeed, the endeavours of the Expert Committee so far, as reflected in the interim report, deserve to dismissed out of hand.

The occasion may be used, however, to emphasise one or two aspects of planning for employment which have been ignored by the Expert Committee (which is no surprise) and which do not generally receive attention in discussion of programmes to generate employment. First, much of such discussion scrupulously avoids the institutional factor. To put it plainly: it is not considered whether the state-initiated employment programmes, essentially with a construction bias, can be viable and effectively implemented in an economy geared to the satisfaction of private consumption needs backed up by private purchasing power. To take the example of rural housing, which figures so prominently in the Expert Committee's recommendations. True, housing conditions in the rural areas are "deplorable" (as indeed they are in the urban areas) and even the expenditure of many times the amount suggested by the Committee will touch only a fringe of the problem of housing the country's poor. But the problem is that those for whom these houses are meant have not the incomes or purchasing power to rent, much less purchase, the houses built by public investment. To take another kind of example: minor irrigation. Minor irrigation projects like those for digging tubewells have to be undertaken on privately-owned lands. They enhance the value and the productivity of private lands and unless the means are devised to recoup the public investment from out of these private gains, the programme cannot be sustained. One has so often heard of the failure to 'organise' rural works programmes but what appears as the failure of organisation is more often than not a reflection of the limits of government-initiated and government-financed works programmes in a private enterprise economy.

The other aspect of employment-oriented works programmes is that they involve a twofold draft on resources. First, the consumption of the newly employed will expand, very likely to the full extent of their increased incomes. It is idle to pretend that this expansion of consumption can be permitted without a corresponding cutting down of consumption somewhere else in society. Actually, it is not even as simple as that. It is inconceivable that any large

programme of employment creation can be got going without far-reaching changes in the production pattern to meet the pattern of demand generated by the additional employment. Then there are the real resources other than labour that are used up in the employment programmes. Clearly, a large part of the Rs 2,000 crores which the Committee of Experts expects will create 4 million 'jobs' will be spent on real resources which will have to be withdrawn from other uses. This cannot but have its consequences for the overall investment pattern in the economy. It is in this sense that employment programmes have to be a part of the overall plan of economic development, not in the superficial sense of whether the outlay on them forms a part of the plan or not.

It is, of course, pointless to raise these issues in relation to the interim report of the Committee of Experts. Here the only relevant calculation would be how much it is costing the public exchequer to keep the members of the Committee in disguised unemployment.

Education

Chasing the Semester Hare

AN expert committee of the University Grants Commission has advocated a switch-over to the semester system by Universities, at all levels, to "encourage the students to apply themselves more assiduously to their work, to reduce the strain on the students, to save time", etc. It is not clear whether or not the expert committee had a close look at the working of the dozen or more universities as well as the IIT's which already work on the semester plan. A closer look at the mechanics of the semester system shows that not much can be expected from the proposed reform.

For one thing, in order that the semester system should be really effective, it is necessary that most colleges and universities should be able to teach at least the basic courses twice a year (once every semester) and not just once a year as at present. Only then, can those who pass immediately go on to take the next course and those who fail repeat the same course in the second semester. Already, most of our universities conduct the pre-university examination as well as the part one and part two examinations of the degree courses in October as well. Most school boards also conduct the school certificate examination twice every year. But students who pass these examinations in October have to wait till next June before joining the next course. In the semester system, this will be repeated on an even larger scale unless fresh admissions are made in the educational institutes every semester and the teaching of at least the basic courses is begun afresh in the second semester. But this will involve a substantially larger outlay on the physical facilities in educational institutions as well as a sizeable increase in the size of its teaching faculty. Are any of our colleges or universities in a position to do that? The expert committee of the UGC is silent on this point.

The other objection to the changeover is just as serious. At the moment, an average university spends about three months every year in conducting various examinations and declaring their results. If this is to be done twice a year instead of once as at the moment, that will leave time for hardly anything else, including teaching. Without drastic reduction in the time consumed in the organisation of the final examinations, a changeover to the semester system would be a change in name only.

The report in question is yet another instance of the touching faith many in this country have that minor structural changes in the organisation of any public activity will bring about fundamental changes in its content.

The universities will hardly be reluctant to introduce the innovation of the semester system. In practically every university, the present examination system has in practice meant an opportunity for the authorities in the university to distribute patronage (on however petty a scale) amongst their friends in the form of award of examinerships. For those who make a career of running university syndicates and executive councils, control over the distribution of examinerships is an essential part of the scheme for running their own little political machines smoothly on the campus. With redoubled opportunities in the form of two final examinations every year, it is clear that these small-time Tammany hall bosses will be only too glad to have the semester system. This is precisely how the proposed reform has turned out in practice at those places, which have already adopted the new system.

Actually, if there is one reform which will go a long way towards improving the atmosphere on our campuses, it is the overdue one in the examination system. Several expert committees have already reported on the problems. A major reason for the new pay-scales for the university faculties recommended by the Education Commission was the anticipated loss in income of the professors due to the reforms in the system of examinations as proposed by the Commission. Almost all the universities have adopted the new pay-scales as proposed by the UGC, but none has so far taken even preliminary steps towards the suggested reforms in the examinations system. The reasons for this are not hard to discover. Even minor changes in the present system of examinations will affect far too many vested interests adversely and these interests are much too powerful to permit that.

Monopolies

Elimination by Definition

WITHIN a short period of a year and a half the operation of the MRTP Act has run into conceptual as well as procedural problems. These have arisen mainly because, while drafting the Act, the government gave little thought either to problems of administration of the Act or to the question of reconciling its objectives with those of the government's other economic policies. For instance, the Act's failure to provide even broad guidelines about the procedure and scope of investigation by the Monopolies Commission when proposals of expansions and/or new units by large groups are referred to it has resulted in creating such serious divisions within the Commission that the government will find it difficult to act upon its recommendations.

Yet another problem of administration of the Act which the government had failed to consider adequately relates to the identification of an undertaking as a "dominant" undertaking. The problem has arisen mainly because of the inclusion of Section 26 in the Act. Under this section, all undertakings which are dominant (i e, control at least one-third of the total supply of a commodity) and have assets worth at least Rs 1 crore have to compulsorily register themselves with the government. Now, whether a firm is 'dominant' or not depends on the manner in which a 'commodity' is defined and on official data on its total supply. The registration obligation imposed under Section 26, therefore, indirectly puts the onus on the government of notifying a classification of commodities and the statistics of their total supply so that a firm can identify itself as 'dominant' and get itself registered.

The Company Affairs Department has now issued a classification of commodities for the purpose of Section 26 of the Act which is so broad as to completely defeat the purpose of controlling monopolies. The classification has only about 400 commodities, whereas even the Monopolies Inquiry Commission had in 1965 listed 1,100 commodities as well as the market shares of the four largest firms producing each of them. For instance, an easily identifiable product like linoleum (in which India Linoleum, a Birla firm, is clearly dominant) is now included under the broad category of 'floor-covering'. As a result, India Linoleum ceases to be 'dominant'.

The whole problem of issuing a classification of commodities, which has given rise to this absurd situation, could have been avoided if Section 26 had been deleted from the MRTP Act. The government would then have had the freedom to define a commodity according to the realities of its market structure and the substitutability of other available products and then refer the case to the Monopolies Commission. But if Section 26 is to stay, then unless the Company Affairs Department prepares a more detailed list (one at least as detailed as that given in the MIC Report), the Act will be totally ineffective in dealing with monopolies. This should have been obvious enough. That the Department has nevertheless come up with classifications as wide as barn doors can only cast serious doubts upon its commitment to the objective of controlling monopolies.

British Coal Strike

Lesson for the Poor

AFTER a period of six weeks, in which about 300,000 striking coal-mineworkers brought a nation of 57 millions close to complete industrial paralysis, the National Coal Board (NCB) and the National Union of Mineworkers have agreed upon a wage formula which is a victory for the miners. The Wilberforce Court of Inquiry has recommended wage increases ranging from 15 to 31 per cent. The NCB and the Conservative government have had little alternative but to accept these recommendations. This is a humiliating climbdown for a government which has repeatedly said that it will hold down public sector wage increases to 7-8 per cent. The extremely critical industrial situation was caused by drastic cuts in electric power which themselves were the result of the cutting off of coal and other fuel supplies like oil to power stations by effective picketing by the mineworkers. By the sixth week of the strike some one and a half to two million workers had been laid off due to power shortages and many factories were forced to institute a three-day work week. The losses in production have been even greater than these figures indicate. Reductions of fifty per cent and more in normal production rates in many industries have been common. Some continuous process works like steel, glass and chemicals have had to shut down completely as they require an uninterrupted supply of power. Given this situation, Heath tried to save face as best as he could by appointing the Wilberforce Court of Inquiry which was shrewd enough to grant high wage increases as otherwise the miners would have remained on strike.

The British government's climbdown from a position of lofty disdain for labour has great significance for the British political and economic scene. But the inferences that can be drawn from the success of the coal workers' strike are as, or even more, significant for countries which are still largely non-industrialised. The most striking point is the extent to which a highly industrialised economy is closely integrated so that it can be effectively paralysed by the denial of labour or material to any one of a number of key sectors. Secondly, a united front of those who man any key sector leaves the Establishment no choice but to give in to the demands of those who have hitherto been deprived of a fair return for their produce.

If these lessons are translated into international terms, many Afrasian and Latin American countries could demand and get a fairer deal for some of their exports which are indispensable to the smooth functioning of the economies of all the industrial Western European countries and of Japan and consequently, for the stability of their political systems. The oil suppliers who have formed themselves into the Organisation of Petroleum Exporting Countries (OPEC) are already well on the way to reaping the benefits of solidarity and tough bargaining in getting more money for their oil. If suppliers of other key commodities were to adopt the same techniques, economic, diplomatic and military pressure would have little effect on the non-industrialised countries as in a rather perverse sense, peasant-subsistence societies, due to their very poverty, are much more resilient and much less vulnerable to such pressures than highly organised industrial societies. There are no sound reasons why the poorer countries should not use the advantages of their poverty to overcome it. However, the main impediment to such a course of action is the nature of the political elites that control most of the 'developing' countries. The interests of these elites are much too closely tied to those of the industrial powers. But political changes are taking place. For example, it is not entirely improbable that in the next few years, key copper exporters like Zambia, Chile and Bolivia could put up a united front against Western European and Japanese importers. And although copper is not an important commodity as far as volume of imports goes, it is vital to the electrical goods and metal industries of the importing countries. And without electrical accessories and some alloys, a number of other industries — electronics, steel,



automobile, aviation, shipping, to name just a few — would be in serious trouble. For far too long have economists harped on the dependence of the 'developing' world on the 'developed' while in fact the rich countries are much more dependent on the poor.

Power

Shortage amidst Plenty

WHILE the Central Ministry of Irrigation and Power has been speculating that a doubling of generating capacity to 35 mn kilowatts, would be required by March 1977 to meet the country's demand for power, Maharashtra has been experiencing the makings of a power crisis. The power shortage facing Maharashtra is the result not of natural factors, such as the monsoon failure in 1968-69, or of mistakes of planning, but of operational factors. With a capacity of 1,900 MW, a demand of about 1,300 MW should not be expected to pose any problem — even allowing for a 25 per cent reserve for maintenance or repair.

Why then has the present situation arisen? Tarapur, scheduled to come into operation in 1967, was actually commissioned in 1969. Two years later, in April 1971, Unit II of Tarapur's two units was closed down for work on its turbines. Later, in August, Unit I was closed down for refuelling, during which various other problems relating to design and operation were discovered. This unit has been unavailable since then. Unit II had been supplying 100 MW since mid-1971 till the other day. Tarapur was thus supplying at only one-fourth of its capacity of 400 MW. Now the station is completely shut down. Unit II will begin to operate from next week, till early March to accommodate the rabi crop demand. From then on, till some time in May, neither of the two units will be available.

Tarapur was a turn-key job and operating engineers have tended to find fault with the design provisions. General Electric who put up the complex have done a similar job in the US which, too, reports have it, has not worked satisfactorily. Even granting that the fault is in the design rather than in the working or maintenance methods, what the experience highlights once again is that, though nuclear power appears cheap at the stage of project planning, its attendant problems and technological complexity often make it an expensive source of energy, particularly for developing countries.

The two thermal units at Nasik, of 140 MW each, have similarly run into difficulties. One unit had to be closed down for boiler tube failure, and the other for turbine repair. While one unit is now in operation, the other will not be available for at least a month and a half. Meanwhile, the Railways' run-down Chola station and Koyna's hydel power, which is normally staggered for the dry season, are being drawn upon. By the middle of the year the supply position should be easier. And prospects of an even better future are held with Koradi's commissioning in June 1973.

At the same time, a fully developed interconnected system for the western region is yet a distant prospect. Gujarat and Maharashtra, though technically well connected, have yet no compact on supply conditions and rates. In the circumstances, supply crises have to be met by special arrangements, and the economy and flexibility with regard to capacity that interconnected systems are expected to yield, remain a far cry.

BUSINESS

Not by Subsidies Alone

THE Engineering Export Promotion Council (EEPC) is now pressing the government to compensate exporters of engineering goods for their greater reliance on imported steel the prices of which are claimed to be higher than those of domestic steel. According to the EEPC, the government should pay to the exporters the difference, amounting to Rs 12 crores, between the indigenous price of steel fixed by the Joint Plant Committee and the international price. All along the government has been assuring engineering exporters that it would supply steel at international prices so that they are not at a disadvantage *vis-a-vis* their competitors from other countries due to higher steel prices. Now that international prices are found to be higher than domestic prices, the EEPC has reversed the logic and is asking for a new type of compensation from the government. The demand appears *prima facie* reasonable, if it is accepted that the export sector should be assured of inputs at the most favourable prices — in the present instance steel at domestic prices. After all, when a number of other sectors with lower priority get their steel requirements at domestic prices, the export sector should also get all the steel it needs at these prices.

The question of price of steel supplied to engineering exporters is not, however, as simple as made out by the EEPC. When the government guaranteed supply of steel at international prices in a situation in which domestic prices of steel were higher, it wanted to ensure that the exporters' competitive strength was not adversely affected on account of higher prices of one of their major inputs, *viz*, steel. India's major competitors in engineering exports are from the developed countries which happen to be major producers as well as exporters of steel. If freight costs are not taken into account, the price paid by Indian engineering exporters for the imported steel would be the same as that paid by their competitors abroad for steel purchased from domestic sources, thus putting the two on an equal competitive footing as far as steel is concerned. If the EEPC's argument is that the freight element in imported steel results in unequal competition this, again, needs careful examination. The government is already giving some freight subsidy in respect of export items on transport upto the ports from which they are exported. What is being demanded now evidently is that the government ought to subsidise also the freight costs involved in imported inputs.

Engineering exporters already enjoy numerous export incentives such as cash subsidies, import replenishment and duty drawbacks. All these incentives amount to substantial direct and indirect subsidisation of exports. Before introducing yet new subsidies, government needs to consider whether that is going to result in increase in exports. It is futile to proceed on the assumption that ever growing subsidies alone are a *necessary* as well as *sufficient* condition for exports to increase at a satisfactory rate. It would be worthwhile in this context to examine in depth the factors responsible for the slackening trend in exports of engineering goods during the last two years. Cash subsidies and other export incentives are merely inducements to intending exporters, but continuing increase in exports depends on a number of other factors, among which expanding productive capacity is the crucial one. Here it is relevant to remember that underutilisation of capacity and the closure of the Suez Canal were the key factors responsible for the sudden in-

crease in exports of engineering goods during 1967-68 to 1969-70. As growth in exports is generally accompanied by product diversification, it is also necessary to give adequate attention to promoting new units capable of exporting new types of engineering items on an appreciable scale.

The EEPC was quite confident in November 1971 of achieving an export target of Rs 175 crores for engineering goods during 1971-72. Hardly three months later, the target has been brought down sharply to Rs 135 crores. For the last few years, the EEPC has adopted the strategy of pitching the export target high at the beginning of the year so as to bargain with the government for greater supply of steel and for more export incentives. During the last two years the gap between the aspirations of the EEPC and the actual export performance has widened. Attempts to explain away the shortfalls in terms of scarcity of steel, shortage of shipping space and hike in freight rates are hardly helpful. Almost the same complaints were voiced by the EEPC even during the period when engineering exports rose sharply. One would expect the EEPC to come up with a more convincing analysis of the factors responsible for the slackening rate of growth of engineering exports before asking for more subsidies and incentives.

Credit Policy

Playing Safe?

BANKING trends in the first half of the 1971-72 busy season clearly bring out the fact that bank subscription to the Rs 100-crore National Defence Bonds — the entire bond issue was reportedly taken up by banks — took care of the problem of excess liquidity which the Reserve Bank had left untouched in its credit policy for the season. The Reserve Bank had expected bank deposits to increase by about Rs 500 crores during the season and credit expansion to match this figure. Though banks had a comfortable liquidity position on the whole, it had allowed them a net seasonal refinance quota of Rs 170 crores against the actual of Rs 40 crores in the 1970-71 busy season. Its intention, if any, was clearly to inspire a credit surge. But this has not come about.

Data for the three months ended January 28 show a deposit increase of Rs 291 crores against Rs 232 crores in the first half of the 1970-71 busy season, and a credit expansion of Rs 262 crores against Rs 309 crores. The Reserve Bank has pointed out that food procurement advances have expanded slowly this busy season — by Rs 59 crores against Rs 101 crores — and that, net of such advances, bank credit increased by Rs 203 crores against Rs 208 crores. But bank credit other than food procurement had been expected to grow more rapidly this busy season (Rs 375 crores against Rs 320 crores, according to the November estimates of the Reserve Bank).

But while deposit growth outpaced credit expansion during the first half of the busy season, the excess liquidity did not do any damage. Subscription to the National Defence Bonds took care of that. There has been a Rs 151 crore expansion in banks' investments including in government securities, against Rs 96 crores recorded in the first half of the last busy season. The absorption of liquidity has led banks to turn to the Reserve Bank, though on a smaller scale than in the last season. Their borrowings in the first half of the busy season increased by Rs 129 crores against Rs 198 crores in the same period of the last season.

The slack in demand for bank credit has been marked. The Reserve Bank had anticipated substantial credit to the engineering industry which, however, continues to limp because of the steel shortage, among other things. But the Reserve Bank is sticking to its original estimate of a Rs 500-crore credit expansion for the entire busy season — presumably because prices of manufactures are about 4 per cent higher than a year ago. More important, it hopes that the blanket permission to 54 industries to expand production will generate demand for bank credit. There is, however, the imponderable of how food procurement advances would behave — now that the Food Corporation has resorted to grain sales to bring down prices.

There is also another imponderable: deposit growth. Deposit growth tends to slip in the second half of the busy season, as government seeks to keep deficit financing under control at the close of the financial year. On the other hand, credit expansion may pick up in the second half of the season. On balance, the Reserve Bank has estimated that the excess of deposit growth over credit growth would be maintained around Rs 30 crores over the season, as it had anticipated at the beginning of the busy season.

These estimates call for some modification of banks' access to refinance from the Reserve Bank. But Mint Road does not evidently want to tarnish its liberal image. For public consumption, it has stuck to the position, taken in November last, that banks would have to bring down their outstanding borrowings from the Reserve Bank to Rs 191 crores at the end of the busy season, against Rs 20 crores at the season's commencement. But privately banks have been told that they are expected to manage with lower borrowings and that their outstanding borrowings at the end of the season should be below the publicised figure. How much less has not been indicated, however. Is the Reserve Bank being flexible or is it unsure of what is in store for it and the banks in the rest of the busy season?

Glass Industry

A Matter of Raw Materials?

ALTHOUGH it is not the only factor restraining growth of the glass industry, there is substance in the industry's fear that shortage of raw materials may prove a major hurdle. Sand and soda ash are the two main raw materials in glass manufacture. While sand accounts for about 72 per cent of the final weight of glass, soda ash accounts for about 35 per cent of the total cost. Furnace oil, which is the most efficient in melting glass, is another important input required by the industry.

Shortage of soda ash is, however, the main problem. The annual consumption of this chemical by the glass industry increased from 85,000 tonnes three years ago to 120,000 tonnes by the end of last year. While 3.50 lakh tonnes of soda ash are produced in the country, total demand is about 15,000-20,000 tonnes above this level. Though STC has imported marginal quantities of soda ash, glass units have benefited little from this. The shortage also meant a sharp rise in open market prices of soda ash, to almost twice the ex-factory price levels for each category of the chemical.

Yet, for all this, the glass industry has grown rapidly in the past few years. A significant feature of this development has been the closing down of a large number of small uneconomic units and the setting up of more and more mechanised, viable units. There were 134 glass factories in India in 1956; today there are only 70. Out of these, 13 units have automatic machines and the rest operate with semi-automatic devices.

The installed capacity for glass containerwares in the organised sector at the end of 1970 was 259,000 tonnes—169,000 tonnes (70 g) in the automatic units and 90,000 tonnes (30 g) in semi-automatic units. In 1970, production of glass containerware increased from 1.07 lakh tonnes to 2.15 lakh tonnes. Government has, moreover, approved additional capacity of 4 lakh tonnes in the automatic sector and 13,000 tonnes in the semi-automatic sector—which would bring total licensed capacity to 6.72 lakh tonnes. Nevertheless, it is unlikely that installed capacity by 1975 will exceed 4 lakh tonnes. Capacity utilisation, too, has been below 80 per cent in recent years. Assuming the same rate in future, the expected output of glass containerwares by 1975 cannot be over 3.20 lakh tonnes—some 50,000 tonnes less than the estimated demand at the time. Higher capacity utilisation might prevent the shortfall, provided the industry can procure adequate raw materials.

Production of sheet glass, too, has steadily increased during the past 10 years—from 7.5 million sq mtrs in 1960 to 14.7 million sq mtrs in 1968 and further to 17.2 million sq mtrs. The demand for sheet glass is by thickness. Thus, 2 mm thick sheet glass used for picture-framing constitutes about 40 per cent of total demand. The 3 mm sheet-glass is used for automobile and commercial building, 4 mm for railways and skyscrapers, and 4.8 mm for commercial vehicles and show-rooms. There have been complaints that sheet-glass manufacturers have been raising prices, taking advantage of the rise in demand, and that during the past two years alone the price rise has been over 40 per cent. The price of Indian sheet glass is far above international prices. Where the Indian manufacturer charges Rs 61.10 per 10 mtrs of 2 mm sheet glass, the comparable c i f price of imported sheet glass is only Rs 42.00 per 10 mtrs; whereas the c i f prices of imported sheet glass per 10 mtrs of the 3 mm, 4 mm and 5 mm varieties, were Rs 61, Rs 91, and Rs 140, respectively, the corresponding prices charged by Indian companies are Rs 84.30, Rs 119.50, and Rs 260.80. The prices fixed by the Indian companies are ex-factory (exclusive of excise), while the rates of imported glass include the duty.

The sheet glass manufacturers have blamed the high price on high tax burden and increases in raw material costs. Of the four units manufacturing sheet glass, Hindustan Pilkington of Calcutta is the largest, with a market share of about 65 per cent. It has 49 per cent British capital. The second largest is Indo-Ashai Glass, a wholly Japanese-owned firm. What the manufacturers have not revealed is that the high cost of production in the industry also arises from the obsolete technology used. Most of the producers use the 'Fourcault' process, where today the Pittsburg Plate Glass process is the more economical. Indian producers have also yet to use several new developments in glass technology—for example, the float-glass system. Here, both the glass industry and the Central Glass and Ceramic Research Institute, Calcutta, would do well to co-operate in an attempt to achieve cost reduction.

LETTERS TO EDITOR

Deposits with Non-Banking Companies

IN the note "In Aid of Non-Banking" (December 25, 1971, pp 2532-3) it is said: "The companies . . . boldly advertise that they are conforming to the Reserve Bank's regulations—a clear case of hidden persuasion. What is not so widely known to the public is that the Reserve Bank does not really keep a tab on the borrowing companies. Perhaps the Reserve Bank should make a modest investment in publicising this fact . . .".

The foregoing remarks give an impression that the Reserve Bank has done nothing about publicising the fact referred to in the note. This is not correct. Only recently (September 22, 1971), the Reserve Bank issued a press note warning the public that its directions are no guarantee against a company (and its depositors) coming to grief through mismanagement or otherwise. The press note clearly said:

> "Those who place their funds with a non-banking company either in the form of deposits or in the form of unsecured loans, which are not treated as deposits, should not presume that the deposits or loans as the case may be are fully protected or are absolutely safe merely because the company claims to have complied with the Reserve Bank's directions; nor should they be under the impression that they can look to the Reserve Bank for redress in the event of the company failing to meet its obligations in regard to the deposits. While there are a number of financially sound companies accepting deposits, there are also quite a few whose financial position may not be so sound, although they may be formally complying with the directions of the Reserve Bank. Intending depositors would, therefore, be well advised to find out beforehand whether the companies soliciting deposits do so to meet their genuine business requirements, whether their financial position is sound and whether the affairs of the companies are being managed efficiently".

The attention of the public was also drawn to this Press Note in our recent Press Note (December 21, 1971) on the restrictions proposed to be introduced on certain categories of unsecured loans with effect from January 1, 1972.

B RANGASWAMY
Press Relations Officer,
Reserve Bank of India,
Bombay

In Darkest South Africa

AN excerpt from a letter from a South African friend:

We have passed through the agony of seeing a close friend suddenly picked up by the police and then brought dead. The [death?] made world headlines as it should. Some friends of ours still remain in solitary confinement and without access to any helpers, some the police has subjected to interrogation constantly. The government has to keep itself solvent and produce scapegoats to justify itself and its obnoxious laws. Ahmed Timol was a 30-year-old school teacher and the police alleged that he committed suicide, suddenly running and jumping from the 10th floor of the police buildings. But Ahmed was a successful, bright, thoroughly integrated young man and so the doubts. About 80 days ago 40 persons were detained together with him. Seventeen have been released since — others, who include many young students, have been unheard of since their detention, and in terms of our laws there can be no redress and their release is dependent on the police. I have been occupied organising protests, stand-ins, etc. They may or may not have their use. There has been some good white response, and whites constitute votes. For myself? I am told repeatedly that I am making myself pointedly vulnerable — but how else do I justify my existence in South Africa, myself as a South African.

SATISH SABERWAL
Simla

Dilemmas in the Making

Romesh Thapar

EVERY now and then, the leadership of this subcontinent has asked itself: "Where do we go from here?" This is a question which embraces ideologies, commitments and perspectives, the past, the present and the future. Yet today, at one of the most crucial turning points in the history of the subcontinent, no one in the leading elite asks the question. They are content to surrender themselves, totally, to the *diktats* of Safdarjang Road. Seldom have we witnessed such a grovelling retreat of independent thinking and action. And, significantly, not a sound emerges to criticise, or to denounce, or to hail, this dominating fact of a developing situation.

Indira Gandhi is convinced that she has to exercise her new-found power — and it is of a kind seldom witnessed before — in order to stir a *status quo* system into action on age-old problems which continue to fester and which need her surgical treatment. If the political hierarchies in the states stand in the way of change, they must be cast aside. If political colleagues at the centre or in the states cannot understand the pressures that are building, let them crumble.

CHOSEN SUBEDARS

Because no carefully chosen alternative hierarchies and personalities exist, *ad hoc* selections of 'subedars' are being made. It is hoped that these chosen men will fill the vacuums left behind by those who have been cast aside or those who have crumbled as a result of the march of events. If they do not, and if they fail to remain loyal and subservient to the will of Delhi, they will be removed as a fly is from good milk. The 'subedars' leave the Capital quite conscious of what is expected of them and what they expect if they should let down their leader.

So far, so good. Indira Gandhi has learned that there are no magic routes to an era of plenty, that she has to crack the whip in order to discipline for national purposes a lazy, corrupted, affluent elite, and that the patience and tolerance of the mass of the people could reach a point of exhaustion any day. In other words, the Prime Minister is in a terrible hurry. She should be. And because she is the only one in a hurry, she makes sense to the people. However, this is not the end of the story.

If a fresh system of hierarchies and personalities has to be launched in the states, must the mechanics be left to a new variety of the *babus, munshis, dalals* and *dadas*? There is grave and widespread criticism of the kind of persons who have been entrusted with wielding decisive power in the distribution of election tickets. The leader, as they say, cannot be everywhere — but it is the duty of the leader to see that those who handle delegated power are not the familiar type of operators who wrecked so much of our achievement during the last 25 years. India is a complex federal continent. It cannot be run for long without very sensitive systems embodying a variety of built-in checks and balances. Today, we look in vain for the safety-valves, the warning signals, the philosophical underpinning of the political system that is in the making.

TOMORROW'S REPERCUSSIONS

The headlines tell us about superficialities. "Is this a socialist army or an Indira menagerie?", "Are we headed for a government of Kulaks?", "Beware of personal power!". These are the mouthings of factions disappointed by the results of the battle for tickets. After all, the hold of powerful landed interests has been weakened in one state. In another, the Young Turks are licking their wounds. Not far away, the communists are thrilling to their 'collaboration agreement' which will give them a chance to ride the Indira wave, even though it will down them. The headlines are designed for immediate political advantage. Unfortunately, the scene is bereft of any deeper thinking on tomorrow's repercussions of today's goings-on.

In the scrambling and unscrambling that has been ordered, no pattern of commitment has emerged. Indeed the theory of a new hierarchy, backed by new personalities, is discounted within the ruling Congress party. Once the elections are over, the hidden factions will not be so hidden. The same sorry battle for positions and perks will take hold of the machine. The creatures who sat around on the pavements outside the homes of the ticket-givers in Delhi are distinguished by their lack of commitment to anything but themselves — and, of course, to 'the leader'.

The only silver lining in such a situation could be a massive landslide. The weakness and danger in the situation would immediately be corrected. The 'subedars' would hold. The factional battles would be paralysed. The *fatwa* from Delhi would be honoured. The process of change would be launched. In other words, Indira Gandhi will have to work for nothing less than a massive landslide. Without it, there will be new instabilities. But then, with it, there will be new dangers, new fears. Many dilemmas are in the making.

February 14

COMPANIES

Further into Production and Marketing

Hansavivek

VOLTAS is seeking government permission to issue 'rights' shares on a one-for-five basis at a premium of Rs 50 per share, with a view to finding part of the additional finance required for its expanding business. Apart from increasing its turnover at a progressively higher rate every year, the intention is also to increase Voltas's own production in the next five years to at least twice the present level. During 1970-71, total output increased by 47 per cent to Rs 9.32 crores. With the planned increase in production, licensed capacity of most items of manufacture is likely to be attained very shortly. Further expansion is aimed at wherever possible, and so also diversification into new fields of manufacture. Greater emphasis is being placed on research and development to develop new products and to achieve import substitution. Last year, exports amounted to Rs 27 lakhs despite the total suspension of Indo-UAR trade. The company also exported textile machinery manufactured by its principals,

Lakshmi Machine, amounting to about Rs 1.24 crores. New outlets in Indonesia, Malaysia and Thailand are being explored. A separate corporate planning cell has been set up to carry out detailed work in conjunction with the operating divisions. This is expected to facilitate the planned growth of the company.

The year 1970-71 was a landmark in the company's history, when for the first time total sales crossed the Rs 100-crore mark. The overall results achieved were also the best ever in its 17-year career. Of the various divisions, the engineering divisions contributed substantially to good results, as they were able to conclude, in large measure, projects and orders calling for sophisticated engineering and equipment. The air conditioning and refrigeration divisions showed substantial growth over the year. The electrical division has established itself as a specialist in the supply of sophisticated switchgear equipment and in turnkey contracts. In spite of the many adverse factors that affected the textile industry, the textile division maintained good progress and was able to market according to the target the products manufactured by the principals. The earthmoving and construction equipment division improved its sales and earnings by securing a large share of the demand for the products handled by it — particularly the Tata P and H excavators. In the materials handling division, demand for diesel and electric forklift trucks continued to grow. The manufacturing unit at Thana plans to double production of these trucks next year. The machine-tools division has strengthened its position by acquiring new machine-tool lines manufactured by Praga Tools. The performance of the mining and conveying equipment division was considerably affected by a setback in the coal mining industry as a result of accumulation of stocks of coal at the pit-heads. Demand for water well drills slackened following a year of good monsoon. Sales of the agro-industrial products division registered a substantial increase over the previous year and would have been still higher if government had announced the revised prices for indigenously manufactured tractors and of imported tractors received under the UK loan earlier.

The pharmaceuticals and consumer products division achieved a higher sales turnover, but gross margins were lower. The division has entered the marketing of consumer products such as biscuits, confectioneries etc. The performance of the chemicals division was adversely affected by imports being canalised through government corporations. The division continues to diversify its activities into other essential raw materials, imported as well as indigenous. Some of the world known manufacturers, which this division represents, have expressed interest in the manufacture of their products within India. The project engineering division is executing major turnkey jobs and is expanding into sophisticated equipment and projects, especially air-pollution control. The division has an industrial licence for the manufacture of air pollution control equipment in technical collaboration with Research Cottrell of the US. Substantial orders have been received for electrostatic precipitators and dust collectors which would enable utilisation of the licensed capacity fully for the next two years.

The Week's Companies

(Rs in Lakhs)

	Voltas		Precision Bearings		United Carbon	
	Latest Year 31-8-71	Last Year 31-8-70	Latest Year 31-8-71	Last Year 31-8-70	Latest Year 31-12-71	Last Year 31-12-70
Paid-up capital	519	433	105	105	155	155
Reserves	319	416	78	21	269	226
Borrowings	1240	1391	83	95	23	67
of which Term borrowings	200	200	77	89	23	67
Gross fixed assets	852	803	179	168	359	351
Net fixed assets	457	489	108	109	154	175
Investments	121	115	—	—	—	—
Current liabilities	2588	2117	59	50	149	82
Current assets	4161	3753	217	161	442	355
Stocks	1819	1402	140	89	53	50
Book debts	2262	2269	57	33	348	116
Net sales	8894	7940	220	198	515	381
Other income	15	13	11	4	10	7
Raw material costs	7396	6657	75	56	167	116
Wages	651	569	31	23	19	16
Interest	127	105	6	7	3	6
Gross profit(+)/loss(—)	386	311	71	61	213	171
Depreciation provision	69	53	14	14	30	36
Tax provision	190	156	—	—	105	53
Net profit(+)/loss(—)	127	102	57	47*	78	82
Development rebate provision	2	2	25	—	1	7
Transfer to reserves	47	35	24	11	46	44
Dividend						
Amount	78	65	8	—	31	31
Rate (per cent)	15	15	8	—	20	20
Cover (times)	1.60	1.54	4.00	—	2.48	2.42
Ratios (per cent)						
Gross profit/sales	4.34	3.92	32.27	30.81	41.36	44.88
Net profit/capital employed	6.11	4.55	21.41	27.60	17.45	18.30
Inventories/sales	20.45	17.65	63.64	44.95	10.29	13.12
Wages/sales	7.32	7.16	14.09	11.61	3.69	4.20

* Adjusted against previous loss.

PRECISION BEARINGS INDIA, after wiping off the accumulated loss last year, is now paying a maiden equity dividend of eight per cent for the year to August 1971. Looking to the fourfold cover for the distribution and the fact that shareholders had to wait for 9 years to get a return on their investment, the payment looks modest. But the Board's decision has been influenced by a number of factors. So far, the company has not had to pay income-tax. With the set-off of development rebate and relief under Section 80 J of the Income-tax Act now almost fully recouped, future profits would be liable to taxation. Secondly, the company has been operating consistently at more than rated capacity. Production and sales increased by 14 per cent and 11 per cent, respectively, over the previous year on top of increases of 20.5 per cent and 46.2 per cent, respectively, recorded in the preceding year. The improvment in production techniques alone is not likely to bring about any sizeable increases in output and sales. At the same time, costs are on the rise and the bearing industry is becoming competitive. The situation will materially improve only when the proposed expansion to manufacture 29 lakh bearings per annum on a two-shift basis is implemented. Owing to stringency of foreign exchange, the company has been asked to ascertain whether the imported machinery required for expansion could be obtained from rupee currency areas. This would cause some delay in implementing the expansion which is estimated to take about two years of the receipt of industrial and import licences. The expansion would involve a capital outlay of Rs 1.5 crores, and the management's intention is to employ the company's internal resources to the maximum possible extent, since the financial institutions now insist that they be given an option to convert part of their loans into equity shares. It is also not likely that the company would get permission to issue 'rights' shares at par, since the market price of the share is high. The new chairman, James S Raj, has assured shareholders that barring unforeseen circumstances the generation of funds is expected to be sufficient to provide for adequate return on investment, repayment of loans, and funds needed for growth. His assessment of the immediate future is based on the satisfactory raw-material supply and the healthy order-book. The ball bearing industry is now attaining self-sufficiency in the raw materials field; excepting tubes, all other raw materials are manufactured in the country. Dependence on tubes also will, to an extent, be reduced since TISCO has commenced production of forged rings. PBI obtained a licence for the import of balancing plant and has installed bulk of the machines. This should also help raise output to some extent.

UNITED CARBON INDIA has secured a 'letter of intent' for expansion of capacity to 22,750 tonnes per annum to meet the growing demand for carbon black owing to the larger expansion programme of tyre manufacturers in the country. It is also intended to diversify the company's business by taking up the manufacture of petrochemicals and other chemicals. Last year, the company produced almost uninterruptedly. In response to the Prime Minister's appeal, the employees produced an extra 1,500 tonnes in December out of indigenous raw materials; consequently, delays in the receipt of imported carbon black, arising from the dislocation of shipping services, did not affect tyre production in the country. Despite the rising cost of raw materials and increasing incidence of taxation, the company has kept the selling prices of its products unchanged since it began production.

PERSPECTIVES

The Small Car: A Waste of Resources

K S Karnik

THE 'small' car — now cynically renamed the "people's" car — project has been approved after hanging fire for years. What has caused this change in the attitude of the powers-that-be in New Delhi is unclear. Possibly, a major factor is the pressure from the voluble and influential urban elite, who will be the main beneficiaries of this project. It is, however, clear that the project has been cleared in spite of the obvious case against it on economic and social grounds. One wonders whether a cost-benefit analysis was made at all and whether all the relevant factors and alternatives were considered.

The first step in project appraisal is to define the purpose or objective of the project. If the objective is to aid and speed-up the transportation of people from one point to another, then it is obviously necessary to take into consideration all the possible alternative means of doing this. These would include:

(i) cars — 'small' or otherwise,
(ii) bicycles and cycle rickshaws,
(iii) motorcycles, scooters, autorickshaws, etc,
(iv) buses,
(v) trains, including underground railway systems, and
(vi) trams, trolley-buses, etc.

It is clear that we can immediately split the list into two categories — means of transporting a few individuals at a time, comprising items (i) through (iii), and means of mass-transportation, comprising items iv, v and vi. In order to choose the best means (or the best mix) from these alternatives, it is necessary to consider the economic and social costs and benefits of each. So as to simplify the analysis we shall consider only two alternatives — cars and buses. The analysis is primarily qualitative, in that the various costs and benefits are identified but not quantified. It will be seen that qualitative considerations are sufficient to demolish the rationale (if any) of a small car project.

Let us first consider the road transportation network, limiting ourselves to cities/towns and not considering intercity 'highways'. In all cities, roads are getting increasingly congested and the main arteries are getting absolutely chocked with traffic, especially during the peak hours. Also, generally roads have little or no scope for broadening, buildings having been allowed to spring up almost on the road if they were not already there. Thus, little can be done except to increase the efficiency of the road-system, i e, to use it to carry more people in a shorter time.

Cars are faster than buses, though only marginally so in congested traffic conditions. However, each car can carry a normal maximum (this excludes those extra large families shown piling into their cars in family planning documentaries!) of 6 persons. In fact, one survey indicated an average of 1.8 persons per car in the peak hours. A bus carries over 80 passengers. Let us therefore consider this as a problem where the use of a scarce commodity, the road, has to be optimised in such a way that it maximises the rate of flow of people over it.

In order to take the various factors — *viz*, speed, number of persons transported and road area used — into account let us define a composite index. Such an index can be the number of passenger-metres (akin to the passenger-kilometre unit used by airlines) covered per second per unit of road area occupied by the means of transport. Thus, the units of this index will be in terms of passenger-metres per second per

square metre of road area occupied. For simplicity, let us call this unit a 'kiran' figure (since a ray carries a stream of photons in discrete quantas, as a road does traffic).

Using this unit let us now compare the relative efficiencies of a car and a bus, under the following assumptions:

	Bus	Car
Road area occupied (sq m)	25	6
Average speed (kmph)	30	50
Number of passengers	60	3
		(including driver)

In normal city traffic, it is extremely difficult for a car to travel at an average speed of 50 kmph. Also, 3 persons per car is definitely a high average, particularly for peak hours. Even with these favourable assumptions, cars come out badly with a 'kiran' figure of 7 compared to 20 for a bus. Thus, use of cars is a sub-optimal utilisation of the scarce resource — roads.

Consider now the problems involved in providing parking space for cars. A very large majority of cars are used by persons who drive to office and then park their cars all day. Since most offices are inevitably located in the crowded down-town areas of cities, this implies conversion of extremely valuable and scarce real-estate into parking lots, where the cars stay put all day — like so much junk. The tangible economic loss of such misutilisation of precious space is itself massive, leave alone the social costs involved.

In addition to the parking space problem, cars cause a total congestion of the roads, since as many as 25 to 30 cars are necessary to transport the same number of people as can be transported by one bus. This causes a general slow-down of all traffic, resulting in further delay to both bus and car passengers. It also results in an increase in road accidents. In fact, cars tend to clutter roads so much that many cities in the West are thinking of banning cars in down-town areas. (Rome has recently initiated this as an experimental measure.) Not only will such a step reduce accidents and parking problems, but it will greatly speed up the transportation of people through the mass transportation system. Pollution in the overcrowded business districts and the general level of noise and chaos will also be greatly reduced.

"Pollution of the environment" is not yet a commonly heard phrase in our country, though it is already a major problem in our metropolitan cities. The contribution of cars to this problem is substantial, and is increasing as their numbers rise. Out of the exhaust system of each US motor vehicle come 1,600 lbs of carbon monoxide, 230 lbs of hydrocarbons and 77 lbs of nitrogen oxides. Indian cars probably put out even larger quantities of these pollutants.

In order to counter these pollution problems, many countries are now moving to the stage of electric cars or cars with steam engines. If at all we must encourage private and individual transport, one wonders why consideration is not given to using these more advanced technologies rather than the primitive and poisonous technology now prevalent. Since we have (hopefully) no oil-lobby like the US does, and the existing investment in the present technology is not too large, it should not be very difficult to produce steam powered or electric cars (especially in the time-frame beyond 1975). Or do the powers in New Delhi believe in meticulously following the 'development path' charted out by the advanced countries of the West?

For a country that imports oil and steel, and is not blessed with an overabundance of foreign exchange, it is economic nonsense to plan large-scale production of cars. One would think that this would be obvious and that a master-plan for transportation would be evolved to minimise the import requirements. Apparently, in the government economic analyses are done differently.

If nothing else, at least the social considerations — especially in a society with socialistic pretensions — would dictate preference of and priority for mass transportation, both in-city and inter-city. One has only to see the long bus queues in Bombay or to walk two miles from a village to the nearest bus-stop and the social considerations would become immediately obvious. We can only hope that, even at this late stage, the decision-makers in New Delhi will pay heed to economic sense and the social necessities of the mass of the people rather than to the voluble and selfish urban 'elites'.

FROM OUR CORRESPONDENTS

NEW DELHI

New Approach to Aid

THE elections to the State Assemblies are now the main preoccupation of the political leadership at the Centre and in the States. But a wide-ranging economic policy debate is also building up in the country which will become more audible in the coming months. Popular slogans, which have come to the fore since 1969, such as those about banishing poverty and reducing disparities in incomes and wealth, to which have now been added others about ending dependence on foreign aid and achieving self-reliance, have so far remained inoperative. Now, with the Bangla Desh problem satisfactorily resolved and the authority of the ruling party practically unchallenged throughout the country, it is expected that the government would outline policies and programmes to translate the slogans and promises into action.

The formulation of the Second Five-Year Plan in the mid-fifties, which in effect marked the launching of planned economic development, was the occasion for much debate on the strategy and long-term policy-frame for development. The planning process that was then initiated has many achievements to its credit, but it had run its course by the mid-sixties. Thus came about the period of the plan holiday. An attempt was made to revive planned development with the Fourth Plan (1969-70). But the effort has failed mainly because it has lacked political support, the political leadership being divided and unable or willing to commit itself to the tasks of long-term economic and social development. As a result, the Fourth Plan can be seen to be floundering without any of the targets or objectives set for it being achieved.

Meanwhile, however, political stability has returned and the authority of the political leadership has been re-established. The favourable political environment is hopefully regarded as the basis for a fresh search for suitable plan models and policies and programmes which will revive the development process on a long-term basis. We are again in the midst of a situation somewhat similar to the mid-fifties which might result in a ferment of ideas as the planners begin their first exercises on the Fifth Plan. This is most evident on the issues of foreign aid and self-reliance.

Reports have already appeared of differences within the Planning Commission and among government officials and Ministers over what exactly the objective of self-reliance should imply, the extent to which aid from abroad should supplement internal resources for development and the manner in which aid should be deployed in the development process. There has been a misguided tendency to see a parallel between the current discussion on suspension of a part of US aid and the demand after the 1965 conflict with Pakistan for dispensing with foreign aid. On that occasion the suspension of US aid gave rise initially to the slogan of self-reliance which, however, soon turned into a search for more aid to end aid. It is suggested that there are certain personalities in the government who themselves constitute what may be called the 'aid lobby' and that they are again at work, like in the post-1965 period, to thwart any real progress in the direction of self-reliance. The suggestion in the Fourth Plan mid-term appraisal that aid requirements in the remaining two years of the Plan will be actually higher than originally envisaged and higher than the inflow of aid in the first three years, the decision to allow established industries to expand production which will push up demand for imports and hence foreign aid and, finally, the World Bank President's visit to New Delhi and his discussions with government officials on future aid flows from and *via* the World Bank are cited as proof that it will not be long before the retreat from the slogan of self-reliance begins.

Such simple comparisons between the events of six years ago and the present situation are not, however, very enlightening. For, the present urge for self-reliance has thrown up a wide range of issues instead of concentrating on the problem of filling the trade gap. Today the issue of self-reliance arises in the larger context of the slogan of ending poverty and reducing disparities. What is beginning to be debated are the requirements of a new development strategy in which the objectives in self-reliance, growth and social justice are combined and which, in addition, is based upon the higher levels of economic development that the country has achieved after the first phase of development. As in mid-fifties, fundamentals are in the picture once again.

At the same time, some immediate issues have to be reckoned with first. The budget will be presented immediately after the State Assembly elections and work on it is in hand right now. In this exercise certain considerations have to be taken into account. The political leadership has taken responsibility for the Plan outlay next year being stepped up over that in the current year. Also, there is the commitment to extend substantial aid to Bangladesh. The aid already committed to Bangladesh amounts to nearly Rs 150 crores which should get used up by May-June and additional aid of about Rs 200 crores may be necessary to cover the whole of the financial year 1972-73. As for foreign aid in 1972-73, while there may be no substantial reduction over what was available in the current year, there will definitely be no increase. Repayment obligations will be somewhat higher. Taking these elements together, it is quite clear that a sizeable increase in resource mobilisation will be necessary in the next budget. While once the assembly elections are over the states may be expected to make a larger resource raising effort, the major responsibility will remain that of the Centre. Fortunately, the 'emergency' measures, introduced in three instalments in May, September and December last year, will yield their full returns in 1972-73.

Besides the effort to "harness more surplus through the fiscal system", as the Finance Minister put it at a recent meeting with economic journalists, the Planning Commission and the government are engaged in a study of how to tackle the problems of resources, investment, distribution and prices in an integrated manner. The view is gaining acceptance that in an economy like ours physical controls cannot be dispensed with or substituted by sophisticated fiscal controls. Replacement of physical controls with fiscal measures had become popular during the plan holiday but it seems to be accepted now that shortages of many kinds and varieties are inescapable in our conditions and that, therefore, we must learn to live with them and keep down their ill effects. Once this is accepted, the range and scope of physical controls have to be vastly extended. The organisation of an effective system of internal distribution of essential and strategic commodities is absolutely necessary. There is talk of a network of public distribution agencies to cover not only the major consumer items but also the basic industrial raw materials. The idea may be sound, but can the bureaucratic machinery, on which reliance has to be placed in the absence of popular agencies, be expected to measure up to the task?

Coming back to foreign aid, those in the Finance Ministry dealing with the subject have been avidly looking for the maximum aid from every quarter. But there is a new sophistication in the approach which is worth notice. In the series of talks with Robert McNamara, the World Bank president, the accent was on the quality of aid and the institutions that would govern aid flow.

McNamara's initiative in coming personally, instead of sending the usual World Bank team to make a report which every year becomes the working paper for the annual meeting of the Aid-India Consortium, was obviously intended to show that international agencies in the development aid field could rise above current political tensions and bilateral problems between particular aid-giving and aid-receiving countries, such as the US and India. Another objective of the World Bank chief's visit appeared to be to suggest that, in spite of the present difficulties in Indo-US relations, the US would not be out of the aid picture since the international agencies would continue to channel American aid to India. Hence the stress on the expectation that the US would contribute to the third replenishment of the IDA which would double the finances at the disposal of the IDA and that India would continue to be the biggest beneficiary of IDA aid, more or less continuing to receive about 40 per cent of total IDA aid disbursement as in the past. What this implies is that India can expect a significant step up in IDA aid from the present level of about $ 160 million to nearly $ 320-350 million a year, of which a significant portion will be originating from the US.

On the Indian side, the shift from bilateral to multilateral or international sources of aid fits in with the country's changed requirements. In the first stages of development, reliance was placed on massive project aid on a bilateral basis. This has created a big repayment problem whose burden is being acutely felt now with the repayment liability going up to as much as $ 600 million next year. This aid helped to build up industrial capacities on a significant scale but, at the same time, threw up the problem of imported components and raw materials needed to operate the new capacities. This brought about the shift in emphasis from project to non-project aid. During the last seven years or so non-project aid has figured in a big way in the aid flows to India, together with import of foodgrains on concessional terms which have ended only now. The point being made now is that non-project aid too has lost much of its importance. What is needed is aid which will not act as a substitute for domestic savings and will be primarily intended to bridge the trade gap so long as the problem of servicing past loans remains and India is not able to earn enough foreign exchange to finance the entire range of its import requirements. What is, therefore, being sought is aid to augment the free exchange resources of the country as distinct from supplies and services under project and non-project aid.

The emphasis on aid, particularly through the international agencies, for programmes of social justice and for schemes to reach the benefits of development to the weaker sections, which figured so prominently in the discussions with McNamara has to be seen in this light. Foreign supplies of any kind are just not required for such

schemes. Any aid for such schemes is, therefore, an addition to the free foreign exchange resources available to the government. The demand for allowing Indian bids on preferential basis in international tenders for projects financed by aid funds is designed to serve the same purpose. The rescheduling of repayment obligations available during the last three years also results in the conversion of a part of the fresh credits into free foreign exchange.

Aid by way of free foreign exchange cover for local costs of projects does not lend itself easily to bilateral arrangements. Every aid giving country in a bilateral arrangement is interested in selling its own goods and services and aid becomes in effect export promotion credit. Concessional imports of foodgrains as well as the massive non-project aid in the last few years also provided substantial budgetary support for the Indian Government and tended to be a substitute for domestic resource-raising. The form of aid now proposed to be encouraged will not lend itself to such uses. Of course, it is not likely that project and non-project aid will be stopped right away, but a new and more acceptable form of aid is proposed to be added to the existing forms.

Delayed Take-Off in Rockphosphates

Magnus

DEVELOPMENT of the newly discovered rockphosphate deposits in Rajasthan, which seemed to be progressing well at one time, has recently run into heavy weather. The reasons are complicated and interconnected, but it would appear that at the root of it all lies the greed of the Rajasthan Government, the jealousy of the central government and the ineptitude of the Railways. Corruption, political pressures and nepotism have made matters worse, as is to be expected in any major project these days.

The deposits lie near Jhamarkotra, about 30 miles from Udaipur, and part of the phosphate belt is very rich, i e, of a grade which can be fed directly to fertiliser factories. The rest of the belt will need some beneficiation from around 15 per cent to 32 per cent grade. A decision to start mining the richer part of the belt was taken by the Rajasthan government, which right from the start reserved all phosphate deposits for sole exploitation. The mining contract was given to Bikaner Gypsums (BGL) in which the state government has a 50 per cent share. In terms of the contract, BGL is supposed to deliver a crushed product (f o r price), as well as lumps to local purchasers such as Hindustan Zinc who make superphosphate at their smelter and grinding mills at a much lower price. Since BGL's own large crushing plant is still under construction, a number of portable crushers were set up in the neighbourhood by enterprising persons. They have now become well-entrenched and have already started a move through labour leaders that these temporary crushers should not be moved or given up.

The mining equipment required by the project has not arrived at the site even after 18 months. BGL complains that government guarantees for payment took months to come through; that the agents for power shovels have been making excuses for non-delivery; and, finally, that the state geologists have yet to delineate sufficient ore for proper mining to be planned. In spite of all this, ore production reached a peak of 1,300 tonnes per day last year and is now running at about 900 tonnes per day.

State Government Unhelpful

The state government's role is hard to understand. It makes a net profit of almost Rs 100 per tonne and thus the mine is really the hen that lays golden eggs. And yet it is doing little to help the project, through the Directorate of Mines and Geology. Equipment which could have been released from the Rajasthan Canals Division took about a year to negotiate; bank guarantees for purchase of new items took six months to arrange; but, worst of all, the Department seems actively to impede and hamper mining activity on the ground. It also encourages, one is told, subcontracting by BGL to minor parties so that friends and relations are benefited.

Delhi has been very properly concerned that output has not picked up. A project which is capable of making the country self-sufficient in this imported commodity should not drag its feet. Of course, there is more to it than this proper concern. The potentates in Shastri Bhavan insist that any large mining project must be part of their empire. Rajasthan's *coup* in taking orders and starting deliveries has shaken them badly. Delhi also finds it hard to believe that any project could have got off the ground without a multi-crore investment. It therefore appointed a Phosphate Enquiry Committee to look into the matter. This committee, with sound technical members had some very valuable and practical comments to make during discussion, and their report is under preparation. However, they were confused over the role of the mining contractor: why had BGL not ordered extra-large shovels and dumpers? Why had their consultants not laid out the colony and water-supply schemes? Where was the beneficiation plant going to be? This confusion has arisen because the role of the owner (the state government) is being confused with that of its prime contractor.

It is the Rajasthan government which holds the rest of the area and it should set up a central colony and plant. It is not right that the government should try to pass on its wider responsibilities to a company which has just 10 per cent of the area to work under a subcontract. Alternatively, and this is quite feasible, the government can expand the company which it half-owns, and ask it to take up the entire area.

Private Investment

A possibility which is treated as a closed option by the Rajasthan government is that of private investment. Tata Chemicals and Hindustan Lever, for example, are going to need moderate quantities of rockphosphate for conversion to phosphoric acid in their new plants. These requirements will not justify a large and economic mine, but if the companies are assured of regular supplies at pre-determined prices, the mine can become a worthwhile investment for them. The procedure would then be to design and develop a mine which will have that much extra capacity, and to ask these firms to contribute to initial mine equipment costs. Neither the ownership nor the contractor would suffer in any way and, moreover, the fertiliser plants would not have to enter a new line of activity. Why this approach should be anathema to the Government is hard to understand.

The most amazing part of the whole affair is that if more than 1,000 or 1,200 tonnes are produced daily, there are no means of dispatching the ore. The small-gauge railway line from Udaipur city has two stations near the project. One is closer but does not have enough space for additional sidings, while the other is better situated but is a mile or so further away. The state government has partly built a road to the former through difficult terrain and argues that, having spent a few lakhs on it, that road must be used. The railways, typically, want all material to be delivered 30 miles away at Udaipur city railway station. It should be remembered that the project is supposed to deliver 2,000 to 2,500 tonnes daily by the end of this year and 5,000 tons later on. The trucks going into narrow Udaipur streets will not be exactly welcome. The railways have never provided more than about 850 wagons per month to this project, and these too are available at irregular intervals. The state government would do better to push its case with the railways than to waste effort in arguing about the choice of loading points, which can be selected by the party who has to load. After all, the cost to government is the same and the amount spent on a unused road is hardly worth three days' output.

Rampant Corruption

And so to corruption. In legendary Marwari style, the government wanted cream from the first day, without investing anything to feed the cow properly. At the same time, it is suspected that Congress party stalwarts were just waiting for the contracts to be awarded so that they could move in on the job. To put it bluntly, it is widely believed that every truck-owner who carries ore from the mine to the crushers pays something to party funds; every crusher operator does the same. It is also known that Railway officials try to extract bribes from the contractor for every wagon. Lastly, the smaller grinding mills-cum-chemical works which buy the ore are believed to be selling the ground product at high rates to other customers. It is often said that the Rajasthan officers are acting difficult because if there were a number of lease-holders instead of this semi-government contractor they could have made more money on the side.

Rockphosphates are imported, normally against dollars, at prices around Rs 160 per tonne. While there may have been good reasons to fix prices of Jhamarkotra phosphates similar to landed prices of imports, the time has surely come to reduce the prices to a reasonable level linked with production costs and to ensure that fertilisers are also made cheaper. Only recently the US Government has allowed its phosphate producers to form a cartel, to be known as Phosrock, to encourage exports of this material. By cutting out internal competition, Phosrock, it is hoped, will offer cheaper phosphates abroad: these companies (American, Cyanamid, Continental Oil, International Minerals, Occidental Chemical and W R Grace) exported around 11 mm tons last year, at a price which has declined from $7 to $5 due to competition. It remains to be seen whether our Fertiliser Corporation and others take advantage of this trend not only for imported phosphates, but also for knocking down the price of the Rajasthan product. Australia, for example, gets the bulk of its requirements from Nauru, Ocean Island and Christmas Island, at a price of around $A12-30 per ton under a contract which has another year to run. The Broken Hill South Company has, however, ambitious plans to produce the bulk of Australian requirements of 10 mn tonnes per year.

No Case for Central Takeover

A central government takeover has no attractions whatever. At least this mine is delivering 20,000 tons monthly without exorbitant investment. Judging by the central government's efforts in the mining sector, it will be folly to entrust yet another vital mineral to it. It can concentrate its efforts on the companies entrusted with production of copper, lead, zinc, aluminium and pyrites, all of which have grandiose schemes and colonies in existence for the past several years, but no output to talk about. Of the only two exceptions, coal is produced at a loss by NCDC and Singareni, while Manganese Ores India inherited (and maintained) good mines from a private company. No, it is not advisable for Delhi to take-over operations at these mines, though it can certainly help in financing expansion.

To summarise, this correspondent feels that the right way to develop rockphosphate production quickly is for the Rajasthan Government to strengthen the hands of its agency, Bikaner Gypsums, to arrange capital loans from potential buyers, to push the railways into a broad-gauge connection, and to plan for the whole area without further delay. Assuming this is done, the prices must be reduced and the fertiliser plants must be made to follow suit. Only thus will this part of the national effort towards self-sufficiency succeed.

BANGLADESH

Tears and Rhetoric Do Not Make a Meal

(From a Special Correspondent)

THE short-term foreign policy aims of the Indian government in ordering its troops into former East Pakistan were quite clear. For the first time since Independence, a most favourable conjuncture of circumstances — not of India's making — rendered it possible for the government to achieve the defeat and long-term neutralisation of the most consistent threat to its power, the government of Pakistan. And to do so by a relatively cheap but overwhelmingly victorious display of arms that in some measure compensated for earlier military exercises with more equivocal results. Indeed, by the 14-day war, India emerged with an overwhelming hegemony of power in South Asia, much as Israel established itself as an unrivalled power in the Arab Middle East by the six-day war.

In the longer term, the government's aims are more obscure and its prospects of success much less certain. It has no interest in, or love of, the rights of national self-determination of subject peoples. It has spent considerable resources on various occasions in trying to prevent the expression of just those rights within its own domains. Indeed, the expression of the principle of Bengali independence in eastern India is most dangerous for the interests of the government. Around the states, the talk of 'greater autonomy', of local 'Six Points', can only be increased by the success of the Bangladesh independence movement, to the irritation of Delhi. No, the issue of an independent Bangladesh — the source of the government's present glowing pride — was only the occasion, not the cause of military intervention.

Furthermore, the example of a victorious popular movement overthrowing a hatred tyrant — even if this quaint account only remotely serves as a description of the military intervention — can only encourage those who feel oppressed within India's borders. Indeed, the intervention can almost be seen as a desperate move by Delhi to head off the threat of a popular movement and to secure the conservative leadership of the Awami League. Indian troops on

this account delivered independence by proxy as a prophylactic measure to those people least distrusted by the Indian government. Had they not done so, there was a grave danger that the gap between the Awami League leadership in Calcutta and the men fighting on the ground in East Bengal would have become unbridgeable. The longer the issue of Bangladesh independence remained unresolved, the more likely that the guerilla left would have emerged as the leadership of the movement. And they would pay scant respect to the official border between East and West Bengal

The Indian government is not, of course, set on a course of conscious imperialism. It has territory enough and people too many without taking over 70-odd million of the poorest people in South Asia. But 'imperialism' was only rarely the conscious aim of any power. More often, it seemed to the participants to 'just happen' somehow. With the best will in the world a great power can hardly help dominating its small neighbours. If the great power is also responsible for installing the regime ruling its smaller neighbour, then it no doubt feels obliged to sustain and uphold it, and in doing so, render it even more dependent.

The dangers here are grave. For Mujib has come to power on the basis of foreign military intervention. No long-struggling political movement has shaped and disciplined an alternative basis of power for the new state. What power there is, is foreign, and without it, the new regime might founder among the contradictory forces released by the civil war.

Indian arms then protect the new leadership of Bangladesh against those Bengalis who might be tempted to challenge it and will continue to do so for a long time, whatever side of the border the Indian troops are stationed. Indian material aid, from police advisers to straight financial assistance, keeps the fragile craft afloat. Of course, there is also at the moment great enthusiasm for the new regime, born of the intense relief over the end of Pakistani savagery, but enthusiasm will not fill empty stomachs. The hunger afflicts, not the men of the Calcutta Provincial Government who arrived in the wake of the Indian army, nor yet the many who just kept on working for the West Pakistan authorities (like the 53 high officials just sacked), but the mass of keen young men who were in and around the various Bahinis.

For the young, before the events of the past year, the prospect was fairly hopeless. In the civil war they discovered dignity and hope with a gun in their hands. But now the men who have returned from Calcutta are urging them all to relinquish peacefully what gave them dignity — their guns — and go back to their dead-end jobs (or dead-end studies, or unemployment). All the good jobs have been mopped up by the friends and clients of the Awami League, except where Mujib has forcefully intervened to achieve some other result. But now the dead-end jobs will be even worse because of the appalling state of the economy after the war. On top of poverty have come 20 million homeless and numberless hungry. And ten million former refugees are trying to reinsert themselves among villagers who have forgotten them, taken over their land and shops and acquired a vested interest in resisting the rights of the refugees.

The issue of the surrender of weapons is crucial. The poor response to Mujib's appeal means that the new regime must constantly look over its shoulder. Discontents are inevitable in Bangladesh, but now the discontents are armed. Indeed, perhaps some of those currently being hunted as "West Pakistani agents" are just discontents. The regime will have to start frisking its erstwhile supporters. And the Indian military presence backing the Dacca regime, within or just outside Bangladesh, no matter how reduced, how discreet, how *sotto voce*, cannot but become unsavoury to the minds of potential rebels. And the newly disaffected could thereby be pushed into the arms of the fragments of the National Awami Party still lying quiet in the countryside.

The Indian jute barons are eager to control their largest single rival and secure safe supplies of East Bengal jute for their mills. They have had a boom year thanks to Yahya Khan and do not want to return to the bad old days of open competition. It must have been a related voice which grumbled in *The Economic Times* editorial of January 28 about Bangladesh selling jute to foreign buyers when India's needs had not been fully satisfied — "India has reason to expect Bangladesh to meet our raw jute needs as a reciprocal gesture to what we have done to (*sic*) our neighbour".

The symbols of an independent Bangladesh have been won by the Indian government. The substance will require a much longer and nastier struggle by the Bengalis, a struggle in which the power structure of South Asia could be threatened. The Indian government has so far had occasion to be pleased with its performance. But when the inevitable reaction in Bangladesh sets in, Delhi is bound to respond angrily — with an anger that will look very like old-fashioned big power nationalism. The path to the recognition of reality has not been eased at all by the complete failure of the political opposition in India to raise the right questions, to begin to assert a 'Hands Off Bangladesh' campaign.

However, it would be wrong to underestimate the Bangladesh government in all this. Certainly, Mujib is dependent on India to defend himself against both the left and the frustrated idealists who may become local insurgents as well as political oppositionists. But he could also become increasingly anti-Indian in order to try and win over the opposition to his side. In any case, he needs a counterweight to the power of Delhi, just as Nepal does, just as the Bengali Muslim middle class once needed West Pakistan as a defence against the threat of the much more powerful Indian middle class. Indeed, it is not entirely fantastic, despite protestations to the contrary in Dacca, to foresee some kind of re-establishment of relations between Bangladesh and West Pakistan in the long term, for both need each other in the presence of India. Perhaps this is too far-fetched, given the legacy of bitterness, even though politicians in a spot have short memories. Perhaps more likely is the development of a cordial relationship with China as a way of substantiating Mujib's claims to 'progressive' Bengali nationalism. After all, China did the same job for Ayub and Yahya, and now does the same for Bhutto. On the other hand, China is probably more and more concerned to offset Soviet influence in Delhi. So it may not wish to jeopardise totally its limited relationship with India by supporting a Bangladesh opposition movement against Mujib.

Whatever happens in terms of international relationships, however, can only offer slight relief to Mujib. To Bangalis, Delhi is likely to come to seem increasingly indistinguishable from Islamabad. It will not seem so in Delhi because India does not need East Bengal on anywhere near the scale that West Pakistan did. Bangladesh's income level is too low to make it much of a market for Indian goods. But from the standpoint of the victim this may be a trivial distinction. The raw materials for Bangladesh factories, the imported foodstuffs, India's demands for jute and other produce, the role of Indian capital, all will seem to make Bangladesh an economic colony. This time, East Bengal will be in a much weaker position *vis-a-vis* the power that dominates it because of the very reason that India does not need it.

The Sheikh is an agile fellow and could evade some of the inevitable choices for quite some time. What he cannot do is to discover an economic goldmine which will lurch Bangladesh forward so quickly that jobs, homes and a rising standard of living can be promised the majority, or at least a large enough minority, to secure stability for his government and its relative autonomy *vis-a-vis* India. He could certainly nationalise this and that (the tiny 'heavy industry' sector is in his sights), put 'People's Republic of Bangladesh' on the nameplates of solidly bourgeois institutions, have his show trials of war criminals, even try to end sharecropping if the interests entrenched in the Awami League permit. But these are only the appetisers. It will need more than tears and rhetoric to make a real meal for the long suffering Bengalis.

The best prospect for Delhi is that Mujib will become increasingly anti-Indian fairly soon. Mujib is Delhi's strongest card in Dacca. He can do much to prevent the development of a popular revolutionary movement on India's doorstep, but only if he himself practices an anti-Indian stance. Then the issues will be fudged and Mujib will be able to retain some left sympathies. Unless this happens, the opposition is likely to come to see him as a puppet and, in opposing him, will force him into increasing dependence on Indian forces which will make him just that, a puppet. The struggle for the Bangladesh people's independence may long be delayed, but it seems almost inevitable that it will come. With a real revolt in East Bengal, the dramatic gains of the 14-day war may seem to have done no more than prized open that Pandora's box which is Delhi's persistent nightmare. The people of India may reap what the Bengalis sow.

GUJARAT

The Cards Are on the Table

THE list of 168 candidates which has finally emerged in Gujarat is heavily loaded in favour of the old guard, conservative Congressmen of the Adani-Ghia faction and includes just a sprinkling — about half-a-dozen — representing the Socialist Forum.

It must be recalled that the Forum had been promoted by Indira Gandhi after the Congress split in 1969 in an attempt to build up her power in the party. The impression was sought to be created then that only the 'leftist' elements in the party would enjoy her backing and that loyalty to her leadership meant loyalty to the cause of a radical socialist programme. The Socialist Forum was encouraged to gain a foothold in the power-base of the Gujarat Congress after the fall of the Hitendra Ministry. Its leader — Himmatsinh of Mansa, a political non-entity till that time — was accommodated as vice-president in the GPCC. The Prime Minister's preferences at the time seemed so clear that even Chimanbhai Patel, an influential and opportunist politician, who had almost single-handedly engineered the downfall of the Hitendra Ministry and the defections from Congress(O) to Indira's camp, decided to merge his faction with the Forum on the calculation that the latter had the Prime Minister's direct backing and would be favoured in the selections. Evidently, the Adani-Ghia faction, too, was under the same impression, for it would not otherwise have been so much on the defensive in the struggle for the GPCC leadership and yielded significant ground to the Forum.

The selection of candidates, therefore, has taken all by surprise. Even for the 54 seats, mainly in Saurashtra, on which the GPCC election committee could not agree, the High Command favoured about 27 candidates of the Adani-Ghia faction. Since the former PSP led by Jaswant Mehta had thrown in its lot with Adani and Ghia, they too benefited considerably in the selection. Little surprise then, that the Forum regards the whole exercise as a stab in the back.

The list as chopped and changed by the High Command has, in fact, raised a furore. As the majority of Congressmen are defectors from the Congress(O) and Swatantra, it is difficult to hold that 'defection' has been a ground for denial of party tickets. At the same time, the personal merits of candidates have evidently played little role in their selection. In fact, in the attempt to adjust to the exigencies of intense faction-fighting the lowest common denominator seems to have got established. Many reliable partymen with a sound record of public work have been left aside because they could not be fitted into the prevailing groupism within the party. On the other hand, quite a number who have been denied tickets wield considerable influence in their districts, either because of their caste or public record. By contrast, several of those selected are opportunist-defectors in the public eye, and many others are ex-rulers, landlords, caste-chiefs, and sethias who as individuals have little to recommend themselves.

The party in its campaign will have to defend its candidates rather than give them publicity. Meanwhile, the pro-Forum and pro-Chimanbhai Patel groups have cooled off in the campaigning; and this may prove a substantial drawback since the party has failed so far to build up an alternative cadre and organisation at the grassroots level. Moreover, three important caste-groups are acutely disgruntled about the meagre representation they have received. The Kshatriyas, led by Jaideepsinh of Baria, have already rebelled. Baria has said that his supporters will stand as independents, thus seriously dividing Kshatriya votes; and the Patels, led by Chimanbhai, Jayrambhai, and Vallabbhai Patel, are bound to be less than helpful. Vallabbhai Patel of Rajkot refused to stand for the party, although he was given a ticket, because many other candidates of the Patel group were dropped. The Muslim group is disgruntled also: it had asked for 12 tickets and got only seven. And in Surat where Muslims account for 20 per cent of population, the community has not been given any ticket — in fact, it was in the final revision of the list that the Muslim candidate was replaced by a Hindu, Forum nominee. As a result, quite a few Muslim partymen are standing as independents. Nor has the party found a leader who can take charge of the campaign.

The coming elections, therefore, are not going to be smooth-sailing as was expected in the post-war victory euphoria. The party may have to fall back on Indira Gandhi's charisma; but estimates of the seats it will win are being downgraded. The point, however, is that even with a clear majority for the Congress the prospects are of instability. There are indications already of a rift between Adani and Ghia, with the latter coming out more openly in the race for the chief ministership. Nor should the arch-manoeuvrers, Chimanbhai Patel and Jaideepsinh of Baria, be underrated for their capacity to manipulate defections and create instability with a view to enhancing their own power and role. No doubt, the destabilising forces will get reinforced if a large number of the independent candidates get elected.

An interesting feature of the elections is the entry into the fray of the National Labour Party under the lea-

dership of Vasavada. A large number of trade unions, about 140, from all over Gujarat, have broken away from INTUC and joined the Majur Mahajan in the formation of this new party. The National Labour Party has scrupulously avoided electoral alliances, but has a tacit understanding with Congress(O). In the labour constituencies of Ahmedabad and Baroda, it is expected to put up a tough fight against Congress(R). Indeed, Ghia's prospects are less certain than those of either Adani or Chimanbhai Patel, since he is standing in a predominantly labour area and facing a straight contest against a prominent Mahajan unionist. While the National Labour Party has decided to sponsor only worker-candidates without any other party affiliations and is contesting only seven seats in labour constituencies it is playing on home ground. It is not playing on home ground. It is not offering any tall promises either, and has the advantage of credibility and of committed workers to run its campaigns.

Congress(O) has been similarly scrupulous in its selection of candidates. They have a good public record, none of them is a defector, and only one-fifth of them are ex-MLAs. The party also has the advantage of a grassroots organisation, with the campaign machinery in the hands of none other than Hitendra Desai.

Clearly, the elections in Gujarat will not be a wholly one-sided affair. But what made the Prime Minister take such a step is something that political observers find it difficult to explain. Why did Indira Gandhi cut the ground from under the Forum and so heavily favour the conservative group led by Adani and Ghia? Several explanations are offered. First, that she does not want to take chances with the Gujarat electorate, proverbially conservative and dominated by the petty-bourgeoisie and owner-peasant classes: candidates shouting slogans of radical socialism would prove a liability in the circumstances, and Morarji's conservatives are best matched by conservatives of the Adani-Ghia genre. Secondly, that she had left the task of list-making finally to D P Mishra and Uma Shankar Dixit, who have little concern or commitment to socialism, and the young ideologues of the Forum. Thirdly, and more seriously, it is said that commitment to socialist policies is hardly material to Indira Gandhi's calculations in the choice of men; what counts is unquestioning submission to her authority; in this, both the Forum led by Himmatsinh and the group led by Chimanbhai Patel would be a less safe investment than Adani or Ghia, as the Forum could become an embarrassment if her policies deviate from socialist goals. Indications are that the final choice must have been based on all these considerations.

BIHAR

Very Little Has Changed

BIHAR, like many other states, has just witnessed an ugly scramble for Congress tickets. For weeks the hotels of Patna were bursting with a bizarre assortment of aspirants for Congress tickets and their promoters with big money bags — contractors, businessmen, people out to get rich quick. What deepened the resemblance of the new Congress to the party of old was the blatant display of wealth and muscle-power in the Darbhanga parliamentary by-election where Union Foreign Trade Minister, L N Mishra, was locked in what was virtually a straight fight with the Socialist Party nominee, Ram Sewak Yadav.

Even before Congress tickets for the Assembly elections had been distributed, there were half a dozen self-styled would-be chief ministers going about the state. Central leaders of the party have been saying that at least fifty per cent of the tickets would go to "youth and intellectuals"— convenient labels for anyone they may like to pick up. Here, in Bihar, there have been fifty-year-old leaders of the Youth Congress, and who is to decide who is an intellectual and who is not? The main criterion for selection of candidates has been loyalty to Indira Gandhi. The AICC General Secretary, Chandrajit Yadav, told newsmen in Patna that only those aspirants would be considered for tickets who had come to the New Congress at the time of the presidential election, by which he meant that only those would get tickets who had firm faith in the leadership of the Prime Minister. By that standard, even Ramlakhan Singh Yadav and his tribe of politicians would certainly deserve Congress tickets, howsoever tarnished their image may be otherwise.

But no matter how the Congress tickets are distributed, Bihar is in for worse days. The malady in this state is too deep-rooted to be cured by an election, whatever its results. The Congress has made "stability" the main plank of its election campaign. The Union Finance Minister, Y B Chavan, told Congress workers in Patna some days back that Bihar desperately needed a stable government, for it had "suffered a lot during the last five years". True, the chronic instability since the general elections of 1967 has been a great hurdle to development of the state. But that is only half the truth. For full 20 years before 1967, there was uninterrupted stability and yet it was during that period that the seeds of all that bedevils Bihar today were sown. There is perhaps no richer haul in the annals of corruption than the voluminous report of the Aiyar Commission which laid bare all the murky misdeeds of Congressmen who ruled supreme for two decades. One of the leaders indicted by the commission is once again in the forefront of the state Congress, trying hard to refurbish his tarnished image.

The 20 years of stable Congress rule brought the state to the depths of despair and hopelessness. In spite of nearly Rs 600 crores spent on the three five-year plans, Bihar remained at the bottom of the economic ladder in terms of per capita income. After an expenditure of over Rs 150 crores on irrigation projects, the percentage of gross area irrigated to net area sown slumped from 26.5 per cent during the period 1947-48 to 1949-50 to 26.1 per cent during 1962-63 to 1964-65. Every sector of public life in Bihar was corroded with corruption.

The record of the new Congress in Bihar has been no brighter. If parliamentary government has been reduced to a farce in the last five years, the Congress is perhaps more responsible for it than any other party. The way it engineered defections to pull down the Samyukta Vidhayak Dal government last year will go down as one of the darkest chapters in Bihar politics. After assuming power, one of the first acts of the Congress-led Pragatisheel Vidhayak Dal was to scrap the Dutta Commission of Inquiry set up to probe the charges of corruption against Foreign Trade Minister, L N Mishra, and another former Congress Minister Lahtan Chaudhary. Then came the floods and in their wake a series of scandals: the fodder deal, the tarpaulin deal and other shady deals, so reminiscent of the *ancien regime*. The administration came to a virtual halt, files piled up in the offices of ministers, postings and transfers of officers and doctors were bought and sold in the secretariat and tales of profligacy in high places were told and retold everywhere.

At the root of Bihar's malady is the crisis of character. Also, the crisis of leadership. There is no leader in sight who could stem the rot and give the state a new direction.

SOUTH

Taking Stock

Mohit Sen

IT IS only Andhra and Karnataka that will go to the polls in the South but, after all, the political stock-taking throughout the country will not leave Kerala and Tamil Nadu unaffected. Nor, let it be remembered, would these two states fail to feel the impact of yet another revelation of the political mind of the nation.

It is a fact that Bangla Desh is rather far off from the India south of the Vindhyas, but it would be the height of folly to imagine that the exhilarating events in that new State — or, rather, the events leading to the eventual formation of that State — have not deeply impressed the people here. And what has happened in Bangla Desh is the liberation of 75 millions. The liberation of the minds in Bangla Desh, first, from the confining ideology of theocracy as the essence of policy and the basis of nationhood, then, from the fear of the military junta, moving forward to shedding of illusions about US imperialism and Maoism and going on to an armed path to victory — all this would be extraordinary enough. But it is not all.

What was shattered by the destruction of the State power of the Pakistani military junta in what is now Bangla Desh and by the coming to power of a new combination of classes, was not merely 'Pakistan' as it was conceived by the British imperialists and sustained by the US imperialists. What was shattered was the entire three-tiered neo-colonial structure that was Pakistan, tied as it was to the military pacts of and dependent as it was on the aid from the US. Naturally enough, this shattering has also meant a severe setback to the new Nixon-Kissinger strategy of sharing the hegemony over Asia on the basis of a common hostility towards the Soviet Union. This was to be the strategy which would accompany the electronification of the aggression in Vietnam.

Such a heavy defeat for imperialism in our region will have, and has had, an enormous impact on the political pressures in our country, not least in the South. It, at once, lowers the prestige and reduces the power of the most rabid enemies of national-democratic advance. It has always to be remembered that, while the reaction in India undoubtedly has deep roots within the country, it is dependent on heavy bolstering from abroad — from the US imperialists in the first place. Any weakening of this bolster, materially and morally, not only causes demoralisation among indigenous reactionaries but materially lessens their striking power.

Almost in copybook style, this weakening of US imperialism and its influence in our country was combined with a massive increase in the feelings of solidarity with the Soviet Union. Certain intellectuals may wish to, and possibly can afford to, wait and watch as to what is likely to be the effect of the Indo-Soviet Treaty. But the masses have watched and found no reason to wait before acclaiming what the Soviet Union did at a most perilous point in our history. The idea of Indo-Soviet friendship has become a material force.

Elan for Action

It may be objected at this stage that the victory of the people of Bangla Desh does not mean an end to the poverty of India or to the injustice and inequality that are so rampant here. Quite obviously so. But will this victory facilitate the struggle against those classes and their ramified structures that are responsible for all these dreadful ills besetting our people? Has it not created an elan for action and for change among the masses? And does not the demoralisation of the reactionaries make it easier to deal with them? Have not forces in India come together, and worked together, for the cause of the liberation of Bangla Desh and who can now move forward to the making of the social revolution in our own country? In short, can it be denied that the liberation of Bangla Desh has greatly facilitated the struggle to bring about a shift to the Left in India?

This is the pivotal issue, not only in the coming elections but in what can be called the post-Bangla-Desh-liberation era in the history of our subcontinent. And it is this that has to be at the centre of the discussions on what should be accomplished through the election campaign.

The Congress election propaganda in Andhra and Karnataka, however, shows little sign of this fact being recognised. Quite naturally, cashing in on the tremendous popularity of Indira Gandhi, the main and sometimes exclusive burden of the Congress song is the need to establish strong and stable governments in the states as a complement to the strong and stable government that has been won at the Centre through the 1971 mid-term poll. And, it is added, only an overwhelming Congress majority can secure such a result.

This sounds a particularly poor joke in both Southern states which are going to the polls. In 1967, the Congress had won a very large majority in both these states, and in Andhra it retained this position till the dissolution of the Assembly. In Karnataka, too, the Syndicate lost its majority to the Congress. But what did the Congress do with its unassailable position in both these states and, more particularly, in Andhra? Take any indicator of social progress and one will find that both states are lagging behind tremendously compared even to Tamil Nadu — to say nothing of Kerala. Besides, the instability in Andhra in 1970 had nothing to do with any opposition party; it was directly linked to the attempt of the Congress Ministry to push ahead even more aggressively with the policies that had led to the new rich of the delta to swamp everybody and everything. This relatively brief period of instability apart, what did the Congress do with all the long, long years of comparatively placid and unchallenged rule?

If the masses in these two states have been re-attracted to the Congress it is certainly not on the basis of its record during the period of stability. On the contrary, it is because of the prospect of change produced by precisely the defreezing of the situation following the Congress split in 1969. It is because there is a feeling that the Prime Minister is going to put down the mighty and alleviate the lot of the humble.

This feeling is sought to be reinforced in Andhra by so selecting Congress candidates that the dominant Reddy group — headed by Brahmananda Reddy — is drastically cut to size. Encouragement is given to the backward castes. And a new phenomenon has appeared in the form of an attempt to make an all-India community out of the



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backward castes — the Yadavas in particular. The idea seems to be to appeal to the newly-emerged educated and relatively more affluent sections among these backward castes, and to use them as a counterpoise to the established power of certain dominant caste groups. It is something which has been tried with a fair measure of success by the DMK in Tamil Nadu. The idea is to broadbase the appeal of the Congress by forging an alliance between the old dominant castes (who are to find their power reduced) and the newly emerged middle castes (who are to find themselves included in the circle of power). It is to be done by a measure of reform of the system — including a dose of agrarian reform. The domination of the landlords is to be reduced, but it is not to be succeeded by the power of the toiling peasants. There is to be an attempt to forge an alliance between the capitalist landlords and the upper strata of the peasantry on the basis of a modified and adapted capitalist path of development.

The bloc that was unofficially established, during the 1971 Lok Sabha poll, between the national bourgeoisie who had moved to the Left and the petty bourgeoisie, is now sought to be 'officialised' and cemented in the 1972 Assembly poll. This approach has, of course, to be 'mediated' differently in different states, depending on the correlation of forces, more particularly in the form of the strength of the opposition to the Congress.

Stormy Path

It is not precluded that this line will meet with a fair measure of success, especially as it is being pursued in the contingent circumstance of the victory of the Bangla Desh liberation struggle. But this modified and adapted capitalist path of development cannot be the basis on which the basic and most pressing problems of India can be solved. The capitalist path of development cannot be mended, it has to be ended. The only serious tactical problem which the Left in India should be seriously attempting to tackle is, how this is to be achieved. They should be engaged in trying to work out the series of necessary transitional measures which would lead an ever-larger mass inexorably to struggle for achieving this end. This, precisely, is the path of structural reforms, which the Left would have to try to traverse if it is going to play its inescapable role of initiator and guide. No illusions should be entertained that this path is going to be a smooth one. It will be a stormy path, replete with struggles of various kinds and taking on various forces. It cannot be predicted, here and now, what its climax is likely to be, i e, whether or not an armed civil war can be averted.

The taking of certain kinds of action and the proclamation of certain policies, have consequences which may not be within the control of those who have done that on pragmatic grounds or on an *ad hoc* basis. The Leftward swing of the masses, which resulted in the kind of support that was given to Bangla Desh and which has been advanced still further by the deeds that followed, cannot be contained by the modification of the capitalist path of development. The crisis of the capitalist path of development is manifested in the Leftward swing of the masses who will end the crisis by ending India's quarter of a century of travel along that path. Not even the most powerful of Prime Ministers can escape the dialectics of historical development. But they can, if they wish, powerfully assist this development.

It is because of this assessment of the reality and of the potential of the present situation, that the approach to the Congress and to its electoral line has to be that of both unity and struggle. To miss either aspect would lead not only to disaster but to the disappearance of the Left as a force of effective intervention in the complex situation of today. And that would be bad not for the Left alone but for India and what she can be and could be soon.

KERALA

Stable because Weak

POLITICS in Kerala is becoming curioser and curioser. There have been five elections to the Assembly since 1957 and people were expecting the sixth now along with the elections to the other State Assemblies. As a wag put it, the only way to ensure full employment in the state is to hold frequent elections. If there is no election this time, the credit should go to the CPI. The CPI has kept its fellow-travellers, Congress(R), Muslim League, RSP and PSP (if such a thing still exists) reasonably happy. And if it eventually succeeds in roping in the Kerala Congress, the CPI would be able to claim that it has been able to bring together all the progressive social democrats in the state against the 'reactionary' CPI(M) which has lost its foreign parentage and which now seeks electoral adjustments with Congress(O), Jan Sangh, etc!

When the Congress(R) joined the CPI-led coalition, some people interpreted it as a pointer to what was going to happen in Delhi in the near future. The electoral alliances between the Congress(R) and the CPI in West Bengal and some other states may give greater credibility to that expectation. In Kerala, however, the strength of the coalition lies in the weakness of the coalescing parties. First, none of the parties has any chance of forming a government on its own after securing a majority in a fresh election to the legislature. Second, all are keen to remain in the government — to serve the people, of course. The threat to the present government, if any, comes from the youth wing of the Congress(R). Youth is impatient; it can get disillusioned quickly.

Police Policy Misfires

The most important developments after the Congress(R) joined the government four months back have been on the law and order front. Till then the home portfolio had been with the Muslim League. Mohammed Koya, the minister in charge, reversed Namboodiripad's police policy and restored the *status quo ante*, reserving the full force of the law enforcement machinery for the Naxalites and for the underprivileged fighting for their rights; naturally the propertied classes heaved a sigh of relief. The new Congress(R) Home Minister, Karunakaran, had been a trade union leader and was perhaps under pressure from the Youth Congress. He was, therefore, compelled to announce that his police policy would be nearer Namboodiripad's than Koya's. The results have not been entirely happy. The police has often been not available when it has been most needed and when available it has resorted to use of excessive force. In last two months there have been two indiscriminate and severe lathi charges on students, the police has opened fire at fishermen near the rocket launching site at Thumba and there was arson and looting in Tellicherry.

All political parties admit that the lathi charge on students of a college

in Quilon within the college premises and the three days of arson and looting in Tellicherry were unparalleled in Kerala during the post-Independence period. The arson and looting were, it is believed, communal in origin and the worst sufferers were the minority community. In all four different judicial inquiries have been ordered. The judge originally appointed commissioner for the inquiry into the Quilon lathi charge excused himself and got himself transferred to the inquiry into the Thumba firing. It took more than three weeks for the government to announce the name of an old retired judge of the erstwhile Travancore-Cochin High Court as the commissioner for the Tellicherry inquiry. The terms of reference have not yet been announced. In the meantime there were the usual transfers of officers for alleged negligence of duty and all the political parties have freely passed their own judgments on the causes of the trouble, on the extent of damage and on the responsibility of a particular party or parties. In the circumstances, *Mathrubhumi*, the leading Malayalam daily, has questioned the wisdom of the proposed inquiry since as it would be difficult to make any inquiry commission's findings look fair and impartial. Still Home Minister Karunakaran wants people to believe that the Prime Minister and her advisers in New Delhi were satisfied with his handling of the police portfolio. Perhaps it is as a token of appreciation that the Centre has decided to post one battalion of the CRP in Kerala and to meet its cost.

This does raise some important issues. Who is responsible for law and order in a state when there is a constitutional government functioning? Does not the state government have sufficient authority to recruit additional personnel to increase the strength of the police and, if necessary, to reorganise and train the police force to carry out its policies? Under whose control will the CRP work: will it be under the state Inspector-General of Police? In other words, is it to only supplement the state police or will it work as a separate unit under a separate command for specific purposes? In that case, what are these specific purposes?

Who Is Backward?

There are other ominous developments in Kerala politics. The Nair Service Society has decided to enter politics to fight the allegedly inequitous system of reservation of seats for backward communities in educational institutions and for posts in government service. The term 'backward community' has been treated in practice as rather elastic and some castes which were originally not in the list of backward communities have been added, though no caste has been removed from the list. Following the observations of the Kerala High Court, the state government had appointed a commission under the chairmanship of Nettoor P Damodaran to evolve some rational basis for determining backwardness. The Commission examined the backwardness of communities under four heads, namely, social, educational, representation in government service and economic. On the basis of data furnished by the Bureau of Economics and Statistics after a special inquiry, the Commission identified the backward classes which required reservations and also recommended that the benefit of reservation should not be available to famliies with an annual income of Rs 8,000 or more. This report has been under the consideration of the government for more than a year.

There is no doubt that Brahmins and Nairs were a privileged class during the rule of the Maharajas. They had better facilities for education and occupied all important and even lower posts in the government. After Independence, the Brahmins have lost their position except in the all-India services. While Christians advanced educationally and, being enterprising, have gained strength, Ezhavas too have made some gains because of the reservations, perhaps at the cost of the Nairs. Other backward communities are not numerically as important as the Ezhavas and their gains have not been great. There is no doubt that inequities persist in educational and economic opportunites for backward communities. But reservations are only a temporary palliative. The government has not been able to tackle the problem, beginning with the modernisation of education. At the same time, the Nair community has been drifting into economic backwardness because of its failure to adjust to the changing times, as the Brahmin in Tamil Nadu is going. It is, therefore, understandable that the Nairs should intensify their struggle to hold on to what they have.

The Nair Service Society wants reservations to be based purely on economic considerations. The Kerala Congress, which draws its support from the Christian community, is backing the NSS on the issue and is preparing for an agitation. The CPI(M) wants the government to implement the Nettoor Commission's recommendations. The Muslim League and the Congress(R) are for maintaining the *status quo*. In this they have the support of the Ezhava community and its organisation, the SNDP. The CPI and the PSP have not expressed their views on the subject. Here is a matter for the government to take a quick decision on, before the agitation gets out of control.

Not Communal?

The president of state Congress(R) recently made the discovery that the Muslim League in Kerala is a political party and not a communal body. In 1957 Nehru called the Muslim League a dead horse; in 1959, his daughter, then president of the Congress, resuscitated it to fight the first communist government in Kerala (and India). Later, the Congress included the League in the grand alliance to fight the 1960 elections, but not in the cabinet that was subsequently formed. In 1965, Namboodiripad showed the League that it could get only six seats if it stood alone. In 1967, the CPI(M) formed a united front which included the Muslim League and the CPI and isolated the Congress. The tactic paid rich dividends to all parties and, for the first time, the League was taken into the united front cabinet. The League began to act as peace-maker in the disputes between the CPI(M) and CPI. It also got a Muslim majority district formed. After the exit of the CPI(M) from the cabinet, Thangal, the leader of the League, continues to occupy an important position in the co-ordination committee of the ruling front. Perhaps the state Congress(R) president had this background in mind in adjudging the League to be "not communal"!

A recent decision of the Kerala High Court on a writ petition filed by an employee of the Devagiri College in Calicut is interesting in this context. The case was a simple one. The government has prescribed qualifications for non-teaching staff in colleges. The minimum qualification prescribed for senior superintendents is SSLC and passing of an accounts test. One of the members of the non-teaching staff of the college was a graduate and has also passed the accounts test, but government (disregarding the recommendation of the Director of Collegiate Education) directed the principal to appont one Abdulla Koya Thangal who had passed neither the SSLC nor the accounts test. The court had no difficulty in setting aside Thangal's appointment.

The education department is under Mohammed Koya and the above is not a solitary instance. Is this communalism or political favouritism or just plain nepotism?

BRUSSELS

Economic Opportunities, Political Fears

MUCH of the pontificating over the enlargment of the EEC, whether by politicians or columnists, has dealt with its economic consequences. This is hardly surprising, for if all goes well — if ratification and referenda are carried through to a successful conclusion — next January will see the birth of a 10-nation Common Market with a GNP of some $650,000 million, two-thirds that of the US and over three times that of Japan.

The enlarged Community will have a total population of 260 million, as against 205 million for the US and 103 million for Japan, with per capita incomes ranging between $2,170 (Luxembourg) and $980 (Ireland). It will play a preponderant role in world trade, accounting for over 40 per cent of it — twice as much as the US and Japan put together. It will also have by far the largest merchant fleet — namely 80m tons as against 27m for Japan and under 20m for the US.

Clearly a Community of this size should have the political importance to match its economic strength, especially as it includes at least two great powers. But for a number of reasons commentators within the EEC have refrained from discussing the political consequences of enlargement. One of them is that while the Community has the institutional machinery through which it can exercise its economic power (as in the trade negotiations with the US or Japan, for example) it possesses none on the political side. The so-called Davignon Committee, which provides the Six a forum for exchanging views on foreign policy issues, was set up outside the EEC framework, partly because the Treaty of Rome makes no provision for a political organ.

Of course institutional machinery is not essential for the exercise of political power by a group of countries; provided they at least consult with each other, it is largely immaterial whether such consultations are institutionalised or not. But in the absence of any sort of legal framework of political co-operation it is difficult to assess the political strength of a bloc of countries. Political power does not lend itself readily to measurement; and in any case the total political power represented by a group is not the sum of the power of its members taken separately.

The task of determining the political importance of the enlarged Community is made even more difficult because of sharp differences among the Ten over the degree of political interdependence they feel desirable. Thus if all are agreed that the enlarged Community should be as influential on political issues as it inevitably will be on issues of international trade, for example, there is no agreement among them on how this influence is to be exercised. Clearly a Europe that is highly integrated politically (within a federal system, for example) will be able to exert greater influence than one that consists of a loose confederation of states.

Just what form political co-operation within the enlarged Community will take is anyone's guess at this stage. The French President, like his predecessor, who coined the phrase "Europe des patries" or Europe of nation-states, is strongly opposed to any federal solution, which is favoured by the smaller member countries, notably Belgium and Holland. Earlier, Pompidou proposed that each of the EEC governments appoint a minister for European affairs, who together would form a political council much as the foreign ministers form the EEC's ministerial council. Heath has come out against the idea, not because his views are very different from those of the French President but because he would like all his ministers to develop a European outlook.

It is almost certain that the first summit of the 10-nation Community will examine the question of political union and may even draw up some kind of time-table. However, Heath seems to be alone in wanting to hold the summit as soon as possible; neither Pompidou nor Brandt are in quite as much of a hurry as the British Prime Minister. On the other hand, Heath's impatience is easy to understand: having fought for Britain's entry on political even more than on economic grounds he is anxious to obtain the benefits to be had from closer political collaboration. But only a summit can pave the way for such collaboration, which is bound to require some kind of institutional machinery.

This does not mean that the enlarged Community will not be a political force until such time as it has been unified politically, or at least has acquired political institutions comparable to those it possesses in the economic and monetary field. The reactions to enlargement, of both the Americans and the Russians, indicate that the 10-nation Community will exercise political influence well before achieving political union, if only because the dividing line between political issues and economic ones is never very sharp.

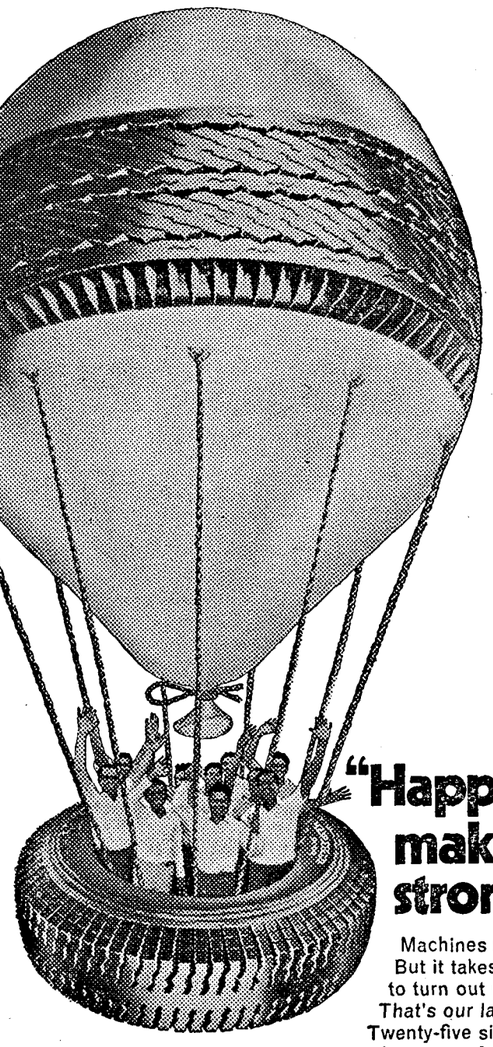
American fears of an enlarged Common Market are largely inspired by the threat to their exports, both to the EEC and to third countries. However, the evidence put forward by the Common Market Commission suggests that these fears are groundless, or at the least greatly exaggerated. Thus between 1958 and 1970 American exports to the EEC rose from $2,800m to $9,900m; during this same period the Community's trade deficit with the US rose from $1,100m to $2,400m, and has averaged some $2,000m since 1958. In 1970, approximately two-thirds of America's total trade surplus was earned in the 6-nation Common Market.

The situation is much the same even as regards agricultural products, despite the common agricultural policy. In 1958 US agricultural exports to the Six amounted to $885m but had more than doubled by 1970. During the past six years American agricultural exports to the Community have risen by 25 per cent, and to the rest of the world by 20 per cent. In fact, since the Common Market was established in 1958 its share in US agricultural exports has remained relatively stable at just over 20 per cent of the total. Ironically enough, there has been a decline in American agricultural exports to the EFTA countries which took 15 per cent of the total in 1958 but only 10 per cent in 1970.

Are American fears of the enlarged EEC entirely commercial and economic in nature or are they political also? The Six maintain that the steady deterioration in the US balance of trade was due mainly to its trade with Japan; but the Community's own statistics show that sales of American manufacturing subsidiaries located within the EEC are rising. A 10-nation Common Market presumably will be an even more powerful magnet for US investments, at least a proportion of which probably represent the transfer of manufacturing facilities from the US.

The fears which are presented by the Americans as commercial and monetary in nature are in fact political also; this is confirmed by their attacks on the EEC's preferential arrangements with developing countries. The agreements with the African associated states, for example, cannot be seriously regarded as a threat to US trade inte-

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rests. And American complaints that these agreements violate the GATT most-favoured-nation principle would carry greater conviction if the US had not violated GATT rules on numerous occasions.

Nixon's fears are not so much for the US balance of trade or payments but for US foreign policy. With the virtual disappearance of the simple, bipolar world of the 1950s and 1960s the nations of Western Europe have begun to recover their independence in foreign affairs. Now that all issues cannot automatically be viewed in bipolar terms, European reactions to foreign policy issues have become less predictable. There is a very real danger that Heath, far from acting as Nixon's Trojan Horse in the EEC camp, will seek to lead West Europeans in the direction of a resolutely 'European' foreign policy. The emergence of a new Anglo-French *entente* could make it more difficult for the US to deal with its European allies.

Soviet fears of an enlarged Community are much easier to understand. The Common Market has always attracted some of the East European countries, who believe that it would be to their economic advantage to develop their trade with it. This power of attraction is likely to increase. If East European countries develop their trade with the EEC it will be at the expense of their COMECON partners; indeed, both the effectiveness and cohesiveness of the COMECON would be weakened. It is not surprising, therefore, that the Chinese should have welcomed the enlargement of the EEC.

Soviet fears on this score are probably exaggerated. Although the bipolar world has largely disappeared, the West has tacitly agreed not to seek the 'liberation' of the East European States. While this does not rule out efforts at *detente*, it makes it unlikely that the enlarged EEC would encourage the East European countries to redirect their foreign trade, for example. But if West European attempts at economic integration should prove more successful than those of the East Europeans, the demonstration effect will not be lost on the latter.

However, Moscow has additional reasons for taking a jaundiced view of the enlargement of the EEC. The entry of the UK will probably reinforce elements hostile to the Soviet Union, while the entry of Norway and Denmark will make it very difficult, if not impossible, for Moscow to continue with its Scandinavian policy, which aims at the 'Finlandisation' of the Nordic countries. Heath's insistence on a 10-nation summit may also delay the European security conference to which the Russians attach so much importance, for such a conference represents an attempt to delay, if not thwart, West European moves at integration.

CHILE

Obstacles to Socialism

T V Sathyamurthy

IN a previous article ("Chile: An Interim Assessment", pp 1527-34, Special Number, July 1971), I had described the major problems faced by President Allende and his *Unidad Popular* (UP — Popular Unity) government in establishing their authority. Since then, a number of difficulties have been encounterd by Allende in his attempt to bring socialism and revolutionary change to Chile through parliamentary means. As the Chilean experiment has, deservedly, attracted wide notice and puzzled, if not excited, socialists all over the world, the main events of the last six months and their implications for the future of Chilean socialism are considered here.

The interest in contemporary Chile arises from the challenges Allende faces in bringing revolution and socialism to the people *within* the pluralist institutionalised democratic constraints imposed by Chile's history. To do this he must beat the bourgeoisie, so to say, at its own game — of elections, constitutional finesse and legal legerdemain. Fifty years ago, the first populist president of Chile, Arturo Alessandri, popularly known as the Lion of Tarapaca, attempted a transformation of the Chilean political structure with a view to enabling the rising bourgeoisie to share political power with the puissant landed aristocracy; he was later compelled to admit that in the final analysis it would be impossible to achieve his aim without resort to coercive measures. Chilean politicians possess an uncommonly keen sense of history and it would be a reasonable guess that in recent months Allende must have often pondered on the experience of Arturo Alessandri.

It is now clear that the Christian Democrats (PDC), and especially Frei, Allende's predecessor, were so loath to permit the *Unidad Popular* government to take power that they were prepared, in collusion with right wing elements, to by-pass the election results and hand over the reins of government to the military by engineering a crisis. Ironically, it was the military (and especially, the Chief of Staff, General Renee Schneider, who was a favourite of the PDC during the early years of Frei's presidency) which insisted on the observance of constitutional proprieties and a smooth transfer of power to Allende.[1] Soon after, Schneider was assassinated and the *Unidad Popular* gained a hero.

The main problem Allende has had to face after coming to power relates to the management of the *Senado* (Senate) and the *Camara de Deputados* (the National Assembly) in both of which (due for general elections in early 1973) the right wing *Partido Nacional* (PN) and the centrist *Partido Democracia Christiana* (PDC) are in a strong majority. After the first few months of Allende's presidency, and especially since the assassination of Perez Jimenez (Frei's Minister of the Interior), the PN and the PDC have gradually tended to join forces and tried to put the government and the UP on the defensive by thwarting its legislative programme and attacking individual ministers. The right and the centre have also combined forces to counter the already aroused revolutionary socialist political consciousness of the poor peasants, workers, urban intelligentsia and middle-level professional people, by actively fostering the political feelings — against Allende and the UP — of the conservative and reactionary sections of the population, i e, the bourgeoisie, the managerial establishment and certain sections of the petty bourgeoisie who are vulnerable to reactionary propaganda. The first clear evidence of this new move on the part of the combined forces of the right was their propaganda on the eve of the municipal elections in April 1971, and, to an even more virulent degree, in the campaign for by-elections to the *Senado* and the *Camara* held in Valparaiso (July 1971), Linares and Colchagua-O'Higgins (January 1972).[2]

It is a paradox of Chilean socialism that while Allende is flanked by an extra-parliamentary left (designated for convenience as MIR, but in fact consisting of a complex and overlapping



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network of different groups) which has displayed enormous patience despite its increasing dissatisfaction with the slow progress of the revolution, he is opposed by a centre-right wing coalitional opposition within the legislature which is determined, to use its parliamentary advantage to the hilt and try to remove him and the UP from power. The PDC's tactics, especially with the increasingly obvious abandonment on the part of Frei of his social democratic political pretensions, have isolated Frei's rival within the party, Radomiro Tomic, and driven the more conscientious among the Christian Democrats (a tiny but influential group) into the fold of the UP.[3] Malicious propaganda against the government, unfounded rumours designed to break down the morale of the people and the magnification of discontent are systematically carried out with impunity through the television, radio and newspaper media. The legislative organs and the judicial system offer enthusiastic, willing and open protection to those who defy government authority. A few examples of the confrontation between opposition and government in and outside the legislative chambers would serve as an indication of the dilemma with which Allende is faced and the shape of things to come if the UP is unable to win the 1973 elections to the legislature.

Among the private business and manufacturing establishments nationalised during the first year of Allende's regime were the textile and related industries owned by the notorious Yarur family. This family has been able to win, without any difficulty, what appears to be an indefinite stay order on the regulations specifying the nationalisation and expropriation of their industries. In order to push the government's regulations through, fresh legislative sanction will be needed which could and would be blocked by the centre-right wing coalition. In another confrontation, the Christian Democrat Rector of the University of Chile, Edgardo Boenninger, and his political allies recently staged a theatrical march against the government which ended in an attempt to force entry into the *Moneda* (seat of the government), after he and his allies had failed to deal with the strong internal opposition to their political and academic policies. The government, as any government would under such circumstances, arrested the Rector and his cohorts for disrupting law and order. The court simply ignored the government's charges and released them without even making an effort to determine the validity of the charges. This is simply one in a number of such instances of the systematic manner in which the courts, from the Supreme Court downwards, have scoffed at the executive authority of Allende's government.

The most blatant attempt at obstructing smooth functioning of Allende's government was "the march of the emply saucepans" early in December 1971. A number of housewives — well-fed, clothed, and well-provided women residing in the *barrios altos* (the exclusive residential districts) of Santiago — paraded in the streets of the capital near the *Moneda*, with empty saucepans on their heads in protest against an alleged food shortage which they claimed was due to the policies of the Marxist government of Allende. There is no doubt that this was a political march master-minded by the right-centre coalition. A housewives' demonstration is very embarrassing to the government and the alleged shortage of food is a sensitive area of controversy, even though those who marched on this occasion have never experienced any shortages. Few markets anywhere are so replete with expensive and varied items of food as those in their residential districts.[4]

The police intervened only minimally, but the government was promptly accused by the opposition forces of having used harsh measures. When left wing elements protest in the streets the government is accused of having lost control of law and order; when right wing elements protest the government is suddenly pictured as a coercive agent of rigid laws. Allende's restraint and circumspection during the "march of the empty saucepans" was applauded by the military which has generally become marginally sympathetic to Allende personally, if not to the UP as a whole.[5] The opposition forces could not therefore provoke a first class crisis capable of overthrowing the government. But the march itself served as a prelude to the impeachment of the Minister of the Interior, Toha, in both houses, and to virulent anti-government propaganda in the two predominantly rural constituencies, the Senate constituency of Colchagua-O'Higgins and the Assembly constituency of Linares, in which by-elections were about to take place. The impeachment of a minister who constitutionally holds office in Chile at the pleasure of the President is unheard of; and yet this was pushed through in spite of the indignant opposition of the President.[6] The rightist-centrist propaganda against the government brought about the defeat of the UP candidates.[7] These events have led to a serious reappraisal on the part of Allende of his general political strategy and the day-to-day functioning of his government.

Allende has recently reconstituted his government which resigned *en masse* after the announcement of the results of the two by-elections. The composition of the new cabinet is a clear indication of the slowing down of socialism during the middle phase of Allende's term of office. It also reflects the fact that Allende has been under considerable pressure from the right wing within the UP to which he has at least partly yielded. To be sure, he has insisted on defying the legislature by including Toha in the new cabinet as minister in charge of the important portfolio of defence.[8] But he has also yielded to the veiled threat of the most opportunistic segment of the UP, the Radical Party, by including four of its leaders in the cabinet — two from its rightist section and two from its left. He has had to remove Jacques Chonchol from the Ministry of Agriculture. Chonchol had spearheaded one of the most important planks of the UP's political platform — that relating to agricultural reform.[9] The only party which has retained its original representation in the cabinet is the Communist party, and even in its case, it is widely rumoured that the finance portfolio was first offered to the opportunistic nominal socialist with powerful connections with US capitalist circles, Felippe Herrera. But he declined to join Allende's government. The new cabinet is significantly weaker in its revolutionary or socialistic content than the one it replaced. Allende still continues to count himself as a revolutionary. In fact he has declared that henceforward he is going to take a more vital and personal part in running the affairs of Chile.

But taking an overall view of the situation, there is little doubt that the tactics of political erosion employed by the opposition have succeeded in putting Allende on the defensive and may well have increased the restiveness of the radical elements in and outside the UP. The centre-right coalition seems to have won the most recent round of the political struggle, established itself as the master of the parliamentary game, and entrenched itself in a position of strength by exploiting the high degree of politicisation of the conservative elements of the populace — a process which the centre-right coalition has itself done much to engender during the last six months. Unless Allende recovers his initiative in the coming months by paving the way for victory in the 1973 legislative elections, disillusionment — of those leftists not as committed to

parliamentary niceties as the Communist party, the organisational wing of the Socialist Party, and Allende himself are — is bound to increase to a degree which cannot be safely ignored by the government. As far as these 'unparliamentary' leftists are concerned, the breaking point with them will be reached more quickly than is generally realised. In sum, the centre-right coalition has helped to expose the hollowness of the parliamentary rules of the game as a means of the achievement of the minimal programme of political, social and economic change on the basis of which Allende won the presidential election. It is difficult to see how, short of a decisive victory by the UP in the forthcoming legislative elections, a direct confrontation between the politically conscious left and the politically aroused right can be avoided.

The process of polarisation of Chilean politics between the right and the left has also been aided by external influences on the Latin American political landscape. The recent elections in Uruguay, laboriously and quite blatantly rigged against the Uruguayan counterpart of the Chilean UP, bode no good for Chile. The possibility of the Brazilian and the Argentinian military governments intervening in Chilean affairs cannot be ruled out, especially in the face of the open encouragement given to Latin American governments hostile to Chile by the US. At every moment of political crisis — actual or induced — the US swiftly mounts a vicious propaganda offensive aimed at overthrowing the government of Allende. Castro's visit to Chile was an occasion which the US fully exploited in conjunction with right wing forces within Chile to create fear and distrust about the Allende regime. Castro's own behaviour was exemplary and the fact that American propaganda failed to produce the intended results reflects credit on the adroit manner in which the Cuban leader's visit was handled by guest and hosts alike. Castro met Chilean army officers with whom he had a prolonged conversation about the importance of armed force to the security of any state — socialist or otherwise; he made sure that he mingled with as many sections of the population as practicable — ranging from workers to members of the various professions — with the result that the openness of his visit stifled rumours that it had a conspiratorial purpose.

But achievements like these and Allende's continued survival in power do not of course yet add up to socialism. This highlights the difficulties involved in sowing the seeds of change in any Latin American country within the constraints imposed over a long and tedious stretch of history by those who are implacably opposed to any change that is likely to reduce their power and constrict their influence. It is difficult not to sympathise with Allende; at the same time, it must be baldly said, that unless a radical shift takes place either in the existing institutions[10] or in the methods of achieving change, it is more than likely that Allende's usefulness will slowly dissolve.[11] One way or the other, the next twelve months will be decisive in determining the shape of things to come in Chile.

Notes

1 Schneider was keenly aware of the political currents in Chile and was not antipathetic, if not positively sympathetic, to the left. One of his children is an active sympathiser of the MIR.

2 In an election to the Senate in July 1971, the PDC candidate, Oscar Marin, won a narrow victory against the UP candidate, Hernan del Canto, in the Valparaiso constituency. In the urban areas of Vina and Valparaiso, Marin won 33,017 votes against del Canto's 25,393; but in the rural areas, del Canto won a very comfortable majority. The election was by no means a decisive endorsement of the PDC. In the election to the Assembly (January 1972) from Linares, the UP candidate Maria Elena Mery who had recently defected from the PDC and was instrumental, among others, in forming the new Christian Movement of the Left (MIC or the Movimiento Izquierda Christiana) was defeated by a right wing PN candidate, Sergio Diez, who won 58 per cent of the votes polled. In the election to the Senate from O'Higgins-Colchagua (January 1972), the UP candidate, Carlos Olivares (*Partido Socialista*), was defeated by the PDC candidate who obtained 54 per cent of the votes polled. In the latter two cases, the PDC and the PN, by mutual agreement, put up a candidate who was well to the right of centre.

3 The Movimiento Izquierda Christiana (MIC) was formed after a split away from the PDC and has attracted to its ranks such leaders of MAPU as Jacques Chonchol, until recently Allende's Agriculture Minister, and Senador Alberto Jerez who, as followers of the Christian humanist tradition of Jacques Maritain, felt uneasy in the Christian Marxist milieu of MAPU.

4 Since Allende's coming to power, the income of the lower income groups has been considerably augumented, with the result that their level of food consumption has dramatically increased. This increase in consumption has given traders an opportunity to create artificial scarcities which are embarrassing to the government.

5 The President has cultivated the armed forces, especially the army, in a number of ways. He has maintained close touch with the generals and repeatedly appeared before young recruits to explain his political objectives. More recently, he has provided a number of army officers with managerial positions in the nationalised sectors of industry at very comfortable salaries.

6 The President refused to remove Toha from the cabinet. He, however, had to make a concession to the opposition by relieving Toha of the Ministry of the Interior.

7 These two constituencies are predominantly rural and traditional strongholds of the right wing. Even poor peasants here have not been sufficiently 'conscienticised' and feudal relationships still dominate social life. Furthermore, the *reforma agraria* of the UP has only recently been extended to this area, and, as such, confusion over the new patterns of land ownership, co-operative and state farming is still rife. It is not surprising, therefore, that right and centrist elements, in coalition, were in a very advantageous position to exploit the prevailing state of political flux in the area.

8 Toha is known as one of the more radical members of the cabinet. It is interesting that the defence portfolio which only a year ago was regarded as too sensitive to be placed in charge of any but the most moderate *Partido Radical* minister, has now been given to the energetic and intelligent Toha. This in itself is a measure of the confidence which Allende must by now feel in his relationship with the military.

9 It is widely rumoured that Allende offered the portfolio, prior to the recent reshuffle, to his PDC opponent for the presidency, Radomiro Tomic. That the offer was turned down is not as important as the fact (if it is a fact) that an offer was contemplated or made, as it is a certain indication of the extent of discontent within the PDC with Frei's move to the right — a discontent which could not be confined merely to the breakaway radical groups.

10 Allende has always insisted, with strong justification, that one of the most important stumbling blocks to change in Chile lies in the bicameral character of the national legislature in which the Senate is hardly representative of the people as a whole. He has proclaimed on several occasions that he would transform the legislature into a unicameral institution, without a Senate, by means of a referendum It remains to be seen whether he will be in a position to fulfil his aim.

11 Some interesting developments are already afoot, the full significance of which is not yet clear. For instance, the radical left has recently suffered a setback with the loss of control by the MIR of the student body at the politically very sensitive University of Conception.

The Bene Israel

Dhirendra Narain

The Children of Israel: The Bene Israel of Bombay by Schifra Strizower; Oxford University Press, 1971; pp xiv + 176; Rs 20.

BY any reckoning, the Jews are a most interesting people in the world. There is a Jewish identity within each nation; there is a national identity of the Jews, according to the nation-state in which they live; and, there is an international Jewish identity. While one can think of other groups like the Christians and the Muslims in such context, these do not really compare with the Jewish situation. Except in Israel, the Jews are a minority in every other society, which is not true of the Christians or the Muslims, and it has been so perhaps throughout history. A consistent minority status in every society and yet linked to an international Jewry is certainly a unique social phenomenon, not shared by any other group; at any rate, not to the same extent. When the number of the Jews is as microscope as in India (26,000 in 1940s: 16,000 now) and when they have lived in the country for as long as they have done (2000 years), it is interesting beyond comparison.

Absorbing Study

Schifra Strizower's "The Bene Israel of Bombay" is an absorbing study of a very interesting people. It is amazing how much she has packed in a slim volume of 168 pages of text. It can serve as a useful model for anthropological writing on minority communities of which there are any number in India, both tribals and non-tribals. Free from all jargon, it makes deceptively easy reading; deceptive because while the language is simple, the issues discussed are complex. What is at stake is the whole future of the Bene Israel community in India, which the unusual procedure of a foreword by a member of the community clearly brings out, writing as he does at a later date when the problem of migration to Israel and the problem of settlement there had begun to draw more attention. Herself a practising Jewess, Strizower employs the standard anthropological method of participant observation, including interviewing and not excluding library sources. Based on field work of fifteen months, Strizower deserves all congratulations for telling us so much in so little space and in so engaging a manner.

Starting with the historical memories of the community regarding their migration to India, the book goes on to discuss, even if briefly, such issues as the internal stratification system of the Jews, comparing and contrasting it with the caste system of the host society; end of isolation and migration of Bene Israel from Konkan to Bombay during the 18th century; consequent religious revival; their physical visibility and pattern of physical residential living; Bene Israel's ties with other Jewish groups in the city (chiefly Baghdadis) and in the country (mainly in Cochin) and with non-Jews; economic, political, religious, domestic and recreational life; friendships within and without the community; clubs, cliques and associations; institutions like the synagogue, Jewish schools, Jewish voluntary associations, etc, etc. This incomplete narration gives one an idea of the panoramic coverage of the book and at least this reviewer cannot think of any important area left out by Strizower.

No single book, attempting so much, can do full justice to all the topics even if it were several times bulkier. Depending on one's interest, one would have liked to know more about this or that aspect of the Bene Israel. How authentically Jewish are the Bene Israel is obviously a very important question. The condescending attitude of the fellow-Jews, the Baghdadis in India and the controversy over the suitability of a Bene Israel as marriage partners of other Jews in Israel have a clear ring of identity crisis. Indeed, the constant assurance sought from Strizower, herself a European, about their Jewishness points to their persistent self-doubt. Claiming descent from the lost ten tribes of Israel, Bene Israel explain their forgetting of Hebrew and many Jewish practices thus, "the ship in which the group travelled was wrecked off the Konkan ... Almost all the people were lost, with all their belongings, and only seven couples survived ... The descendants of the seven couples were cut off from their co-religionists till recent times ... During their long isolation from their co-religionists, Bene Israel told me, they forgot Hebrew and a great part of Jewish ritual" (p 13). And yet she herself adds later on, "Clear examination of even the few data cited here thus strongly suggests that the Bene Israel were not as isolated from Jewry nor as ignorant of Judaism as their historical memories imply" (p 44). Strizower's attempt to provide functional explanation of inaccurate historical memories as helping in defining Bene Israel position in India, *vis-a-vis* the Baghdadis and *vis-a-vis* international Jewry (p 16) could have been more elaborate, as she returns to this theme again and again — e g, on p 162: "... nor do they take their membership of Jewry entirely for granted". And even more pointedly in her conclusion, "If there is confusion about the Bene Israel, if they are a puzzle to others and sometimes even to themselves, it is not in relation to their fellow Indians but to their fellow Jews. It is the latter who ask, 'Who are the Bene Israel?'" (p 165).

Gora and Kala Division

It will amuse the Hindus and perhaps confuse the foreigners to know that there is a Gora and Kala division among the Bene Israel. "Until some years ago, Gora and Kala neither intermarried nor interdined" (p 28). "Like Hindu castes, Gora and Kala were conceived of as existing in different degrees of spiritual dignity: Gora, believed to be of pure blood, were exalted, while Kala bore the stigma of their descent" (p 30). And yet it would be a mistake to overdo the resemblance between the Gora-Kala distinction and the caste system. "Nevertheless, Gora and Kala cannot legitimately be considered to have formed a fully fledged caste system. Relations between them were not conceived of as preordained or even as necessary. There was no interdependence" (p 30). It is not clear why the Kala should be fewer in number than the Gora. Gora, Kala and the Baghdadis, later migrants, constitute the elements in the stratification system of the Jews. No matter what the Bene Israel say, they obviously concede superiority to the Baghdadis, which the Baghdadis assume anyhow, leading to a state of intra-community tension (pp 68-71). In view of the superiority-inferiority syndrome, it is difficult to understand

Strizower's bland mention of "...two members of the Bombay Bene Israel community who have married Baghdadi girls (however, I am told there are more than two cases)" (p 71; also p 90). Socially it has always been more difficult to take a wife from the more prestigious group. How then did such marriages occur? And what opposition did they have to face? If two (or more) cases of marriage between Bene Israel men and Baghdadi women are to be treated as any pointer to intra-Jewish relationship and not simply as the result of waywardness of the human heart, then the questions raised above must be answered.

These few criticisms (and one could add some more of a minor nature) are not intended to disparage the book. Questions raised here are based on questions raised by Strizower herself and the answers provided by her. The last chapter on Conclusions makes fascinating reading. In a summary, as masterly as it is brief (mere four pages), Strizower pulls all the threads together and tells us how Bene Israel, a non-ghetto Jewish community of insignificant number, keeps itself intact though freely interacting with non-Jews. It is somewhat surprising for this non-Jewish reviewer to read a Jewish authoress ask, in seeming disbelief and disapproval, why so many Bene Israel went to Israel, when they were not persecuted in India and when they ought to have known what problems awaited them in Israel? Why have Jews from other lands gone to Israel? Surely the magnet of Israel cannot be explained solely or even mainly as escape from persecution or as search for better life in economic terms. Israel is the Jewish homeland, the first and the only one after thousands of years. The question really is not why so many (and not just from India) have gone but why many more have not. Successful European Jews, lacking the strength of numbers but possessing economic and other powers, may have an understandable motive for not migrating. Indian Jews, lacking any viable strength, cannot but feel irresistibly drawn to Israel. And it is only the difficulties there that put a brake on the attraction. But if one of the main difficulties is the Jewishness of the Bene Israel in Israel, then their Jewish identity will be under severe strain even when they decide to stay here. Even ordinary migration is full of interesting problems; migration of the Jews to Israel is much more so. Perhaps we shall understand this situation better when Strizower gives us another volume on Bene Israel in Israel.

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What Sort of Incentives for Exports?

Nandita Pant

The mid-term appraisal of the Fourth Plan not only fails to take note of the implications of the disappointing export performance in the first two years of the Plan, it goes further to cling uncritically to the impossible 7 per cent annual rate of export growth for the entire Plan period. Yet the fact is that exports have increased at less than 5 per cent per annum under the Plan so far. And unless suitable policy measures are taken, the near-stagnancy in exports is likely to continue.

The country lost an opportunity recently to adjust its exchange rate to a more realistic level of a far lower gold parity. By opting instead for a deepening maze of concealed as well as direct export subsidies and for a gradual withdrawal of export duties, the Government has not only chosen to put the exports sector at the mercy of administrative rules of thumb and of pressure groups lobbying for ever-increasing concessions, but has allowed whole quantities of foreign exchange — earned via the import replenishment scheme — to stay outside its allocative control.

An alternative the Government still has before it, according to this paper, is the dual exchange rate — which, while it gives preference to the exports sector, at the same time both brings the foreign exchange earned directly under control of the authorities and does away with bureaucratic discretion.

A CHANGE in the climate for foreign aid and the government's resolve to lay greater emphasis on self-reliance would soon bring the foreign trade sector of the Indian economy into greater prominence. If the objective of reducing dependence on foreign aid is to be achieved, an effective foreign trade policy aimed at augmenting foreign exchange earnings through increased exports and cutting down import by encouraging import substitution will have to be adopted. In retrospect, devaluation of the Indian rupee in 1966 could be regarded as a major event in the evolution of Indian foreign trade policy because it set into motion the process of import substitution and growth in the exports of non-traditional exports — more prominently, of engineering goods, iron and steel products, and chemicals and allied products. The traditional exports like jute manufactures, cotton textiles and tea, however, did not reveal a favourable trend during the last five years. The exports sector as a whole therefore, could not reflect any buoyancy due to the predominance of the traditional items in the commodity composition of exports. In view of this mixed experience after the devaluation of the rupee in 1966, the pertinent question is whether, at the present juncture, a similar devaluation therapy needs to be administered to the Indian economy once again.

Prices of most of the commodities that enter into India's foreign trade are not fixed through administrative decisions of the government. Even those prices which are so fixed are allowed to be altered in response to changing variables which influence their cost of production. After the devaluation in 1966, prices of most commodities that enter directly into the foreign trade of the country or indirectly through their influence on prices of commodities that enter foreign trade, increased considerably. Very much aware of these price changes, government has responded to them by gradually reducing the export duties on the traditional commodities and increasing the cash subsidies to the non-traditional exports. The recent increase in the export duties on jute manufactures is aimed primarily at appropriating part of the windfall profits earned by the jute manufactures from the virtual stoppage of exports of jute manufactures from Bangladesh. These export duties would be cut as soon as Bangladesh resumes its normal production and exports. Thus, with the exception of the recent increase in export duties on jute manufactures, the numerous steps affecting foreign trade taken by the government indicate clearly its recognition of the fact that price changes effected by the devaluation have been eroded completely or significantly for the traditional exports while the non-traditional goods are becoming increasingly non-competitive. The list of commodities subject to export duties is gradually getting shortened while commodities enjoying export subsidies and import replenishments is getting lengthened. In spite of these incentives, the trend in exports during the last three years has not been sufficiently encouraging. The government would soon have to do away with most of the existing export duties and offer additional export incentives to boost the country's export earnings.

In view of the important changes that are taking place and are expected to take place in the field of exports, it would be worthwhile to examine whether the present position could be compared to that obtaining immediately before the devaluation of the rupee in 1966. Prior to the 1966 devaluation, export incentives were given in the form of import entitlements, customs/excise duty drawbacks, railway freight concessions, income tax concessions, export finance at a lower rate of interest, preferential supply of domestic and imported raw materials, and cash subsidies for a few items.[1] Some of these incentives given during the pre-devaluation period have been retained with some improvements, especially export credits at more concessional rates and lengthened period of the IDBI medium-term finance. Exports of certain type of engineering goods, particularly capital goods, are eligible for export finance on deferred payment basis for a period of 7 years and upto 10 years in special cases. The IDBI, in association with approved commercial banks, provides term finance and guarantee facility for exports of certain type of engineering goods. The ECGC has raised its cover, from 66⅔ per cent to 80 per cent, in the case of post-shipment export credit guarantee to exporters of engineering goods securing large export orders valued at Rs 2 crores or above.

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TABLE: PRE-DEVALUATION AND POST-DEVALUATION EXPORT INCENTIVES

(Percentages)

Commodities	Pre-Devaluation Import Entitlement	Post-Devaluation		Effective Cash Subsidy
		Cash Subsidy	Import Replenishment	
(1)	(2)	(3)	(4)	(5)
M/s pipes, tubes and fittings	40	30	15	35
Railway coaches and wagons	40	20	20	25
Hand tools and small tools	75	15	50	30
Iron and steel castings	40	25	5	26
Electric fans	40	20	20	25
Batteries, dry and storage	60	10	40	17
Diesel engines	75	20	20	25
Ingot aluminium semis and aluminium manufactures	75	10	10	11
Sewing machines	40	15	10	17
Electric motors and transformers	40	21	40	35
Railway track materials	40	25	5	26
Steel wire ropes	75	20	40	33
Electronics	45	15	26	20
Structural fabrications	40	23	15	28
Industrial machinery	40	10	17	12
Steel products (NOS)	49	14	28	18
Ferrous hollow wares	54	18	21	23
Machine-tools	40	25	20	31
Automobiles and components	75	10	20	13
Pumps and compressors	48	14	20	18
Bicycles and components	40	30	27	41

The major changes in export incentives in the post-devaluation period concern the schemes of cash subsidy and import replenishment for a wide range of engineering goods, chemicals, pharmaceutical products, rubber manufactures, paper and paper board, etc. The cash subsidies given to most of these goods range between 10-25 per cent, and for some items like steel tubes and pipes, bicycles and components upto 30 per cent of their f o b export value. Most of these goods also get import replenishments of between 20-40 per cent of their f o b export value. (See Table.) The import replenishments for dry and storage batteries, and for hand tools and small tools, are 40 per cent and 50 per cent, respectively.

According to the government, the purpose of the import replenishment is to cover only the foreign exchange content or the *single* foreign exchange content of the exported good, whereas under the import entitlements the foreign exchange allocated was at *twice* the import content subject to a maximum of 75 per cent of the f o b export value in order to provide additional incentives for exports.[2] The import replenishment ratios are generally found to be one-half of the corresponding levels of import entitlement.[3] According to the official version of things, import replenishments would not leave any surplus foreign exchange after allowing for the necessary import components used in producing the exported goods. It is maintained that import replenishments, as such, do not confer any benefit on an exporter except to entitle him to an *assured* supply of imported inputs for his exports.

A scrutiny of columns 2 and 4 of the Table would indicate, however, that import replenishments are not, in all cases, one-half of the corresponding import entitlements. In some cases, import replenishments are more than one-half and in other cases they are less than one-half of their corresponding levels of import entitlements. While it is possible to explain the cases in respect of which import replenishments are less than one-half of the corresponding levels of import entitlements by pointing out that their import content is reduced through domestic availability of these inputs, it is difficult to justify the levels of import replenishments which are higher than one-half of their corresponding import entitlements. It seems needless to go into the logic of these ratios if it is noted that they are decided more often through insufficient technical scrutiny by the administrators who prefer to follow a rule of thumb. The DGTD plays an important role in determining these crude ratios, and those acquainted with the Mathur Committee Report which went into detailed examination of the DGTD would be aware of the deficiencies of the criteria adopted by the DGTD in many such matters. It may also be noted that the twin principles, *viz*, twice the import content and not greater than 75 per cent of the f o b export value were violated quite seriously in a number of cases.[4] Deviations from these principles had increased over time as the sole concern of the policy-makers became one of increasing exports at any cost.[5]

The purpose of providing import entitlements at twice (or more) the level of import content of exports during the pre-devaluation period, was to enable exporters to earn profit through market premium on the import licences. The import entitlements were generally transferrable within a limit, and did earn very high market premiums which fluctuated in response to market forces. The import entitlement scheme meant varying as well as fluctuating export subsidies for different commodities. Thus, during that pre-devaluation period, the system of both multiple and flexible exchange rates was predominant — though the country had a *de jure* single exchange rate.

One of the important arguments cited in favour of the devaluation in 1966 was that the government wanted to do away with the confusion created by the import entitlement scheme and to introduce in its place a set of meaningful incentives for the non-traditional exports along with the currency devaluation. During the last five years, however, government policy has again drifted towards a situation which does not appear to be essentially different from that prior to the last devaluation. And government's contention, that the import replenishments introduced after devaluation cover only the import content of exports, is no longer true. In spite of rapid strides made by the country in the field of import substitution, import replenishments have not been reduced. Though cases of transfer of import replenishment licences do not appear to be occurring on a scale comparable to that under the import entitlement scheme, it is mentioned in informed circles, that the actual import content of exports is 30-50 per cent lower than the import replenishment. The surplus foreign exchange thus obtained through the import replenishment is not always disposed of directly by transferring import licences. It is either utilised to maintain a higher level of domestic production or to sell the imported commodities to others at a premium. It should be noted, however, that profits earned through the scheme of import

replenishments are lower than those earned under the import entitlement scheme. But these lower profits are to a great extent supplemented by cash subsidies, which range upto 30 per cent of the f o b export value for some commodities.

An attempt is made in the above Table to indicate the levels of effective subsidies for some of the important exports of engineering goods. While computing effective export subsidies, no account is taken of the profits earned by exporters from the surplus foreign exchange available from their import replenishments. An estimation of the profits from surplus import replenishments is a difficult task, as no helpful data are available on the levels of surplus import replenishments accruing from different export commodities and on the profit earned from these surpluses. On the basis of rough estimates, profits earned from surplus import replenishments could be placed at 20-25 per cent of these import replenishments — assuming that actual import contents are 30-50 per cent lower than the import replenishments and the premium on surplus foreign exchange thus earned would be around 40-60 per cent. In the absence of indicators, such as premiums on import licences that were available during the pre-devaluation period, one could question the accuracy of the estimates of profits earned through surplus import replenishments. It should also be admitted that the profits available on the import replenishment licences are lower than the profits that were earned through the import entitlement licences. But the point crucial to our discussion is that the official version of the import replenishment scheme — *viz* that it is meant exclusively to provide a guaranteed replenishment of imported inputs used in the manufacture of exported commodities — is no longer valid. It has also a built-in profit element which is very similar to what was available under the import entitlement scheme. The major qualitative difference in the post-devaluation incentive scheme concerns the cash subsidy scheme made available now to a wide range of commodities, and which was applicable earlier only to a few commodities. But the net incentive effect of the profits, built into the import replenishments and the cash subsidies, might not be very different from what obtained under the import entitlement scheme.

Effective cash subsidy, as defined in column 5 of the Table, indicates the actual level of cash incentive granted for a unit of foreign exchange earned, net of import replenishment. An obvious deficiency of the effective cash subsidy indicator is that it does not take into account the indirect import-input content of these export commodities. Even then, the effective cash subsidies for some of these commodities are much higher than their nominal subsidies. For hand tools and small tools, for instance, effective subsidy is 30 per cent, as against the nominal subsidy of 15 per cent. If the profit element of the import replenishment is also added to this, the overall subsidy would be above 40 per cent. A similar exercise could be attempted for other exports, like chemicals and allied products, pharmaceuticals, rubber manufactures, and paper and paper products; and, in all probability, the results would not be very different from those noted for these important engineering exports.

Unspecified Budgetary Burden

Though the government admits that it provides export subsidies to a wide range of non-traditional manufactures, it does not disclose the magnitude of the budgetary burden on account of these cash subsidies. These export subsidies are made available from the market development fund, for which there is a regular budgetary allocation. The market development fund is used for a number of export promotional activities, but a major chunk of this fund is taken up by the export subsidies. Our estimates indicate that the budgetary burden of the export subsidies could be placed at Rs 35 crores to Rs 40 crores per annum. If the current rates of cash subsidies continue, and even if no more items are brought into the cash subsidy scheme, the total budgetary burden of these subsidies would be about Rs 50 crores to Rs 55 crores by 1973-74.

Though the current budgetary allocation for cash subsidies is quite large, it is less than the export duties collected by the government which total at present to about Rs 60 crores per annum. But with anticipated declines in the export duties on the traditional items of exports, export subsidies would soon exceed export duties. With the increasing developmental demands on budgetary resources, the government would soon have to face an awkward problem if it is asked to step up the present levels of subsidies or is led to extend the scheme to many more commodities in an attempt to push up the present unsatisfactory growth rate of exports. During the Fourth Plan so far, exports have increased at less than 5 per cent per annum (adjusting for the changes introduced in the method of recording exports), as against the targeted figure of 7 per cent. On the basis of current indicators, it appears that exports would increase only by about 5 per cent during 1971-72, in spite of the fortuitous spurt in the exports of jute manufactures due to the virtual stoppage of exports from Bangladesh. Once India's exports of jute manufactures settle back to their normal level, the country might perhaps have to put up with a near-stagnant trend in exports in the last two years of the Fourth Plan unless serious note is taken of this trend by the government.

If recent official announcements are to be taken at their face value, there appears to be an unjustified optimism about the country's export performance during the remaining period of the Fourth Plan. The mid-term appraisal of the Fourth Plan not only fails to take note of the implications of a disappointing export performance of the economy during the first two years of the Plan, it goes a step further to cling uncritically to the impossible 7 per cent annual export growth for the entire Plan period. The Foreign Trade Ministry still hopes that exports would increase at an annual rate of over 9 per cent in 1971-72, and at almost the same rate during 1972-73 and 1973-74.

The country recently lost the opportunity to adjust the exchange rate to a realistic level, when it chose to devalue by only 5 per cent against its old gold parity. It would have been more appropriate had the government taken note of the growing confusion stemming from its policy of granting import replenishments and cash subsidies for commodities, the list of which is already running into dozens of pages. If the present policy of relying increasingly on administrative decisions is to be continued, the government can hope to give a boost to the export sector only by extending its import replenishment and cash subsidy schemes to a far greater number of commodities. Such a policy would put a considerable administrative as well as budgetary burden on the government. Taking advantage of the situation, in which currency parities were being changed by a large number of countries, the government should have pegged the rupee to a much lower gold parity — so that it could have done away with a deepening maze of concealed as well as direct export subsidies.

Dual Exchange Rate

If currency devaluation is not an acceptable proposition, an alternative to the present system of import replenishment and cash subsidies could be found by adopting a dual exchange rate. All those commodities which are entitled, at present, to cash subsidies and import replenishments, along with those whose competitive position needs to be strengthened, could be offered the more favourable exchange rate. A single favourable exchange rate applicable to a group of commodities obviously cannot offer differential inducements to different commodities belonging to such a group and, therefore, would confer greater benefit to some export industries. From the angle of efficient allocation of resources, there is nothing wrong if the profit levels of the export industries are not uniformly the same at a given exchange rate. However, if the government intends to foreclose a situation of windfall profits for some export industries with limited export growth prospects, this could be achieved by imposing appropriate levels of export duties. While resorting to export duties to bring down windfall profits, the government would have to avoid the temptation to lower profit rates to unattractive levels. It is unrealistic to expect that the export sector could achieve a reasonably high rate of growth in the absence of an effective government policy that would allow profit rates of export industries to be consistently higher than those available for other industries.

An oft-repeated argument against the system of dual exchange rate is that pressure lobbies would develop, pleading for an extension of the favourable exchange rate to export commodities that are not already included in the favoured group. But under the present regime of cash subsidies and import replenishments such lobbies are already operating through the numerous Export Promotion Councils (EPC). Exporters not happy with the current rates of cash subsidies and import replenishments are frequently knocking at the door of the Export Assistance division of the Ministry of Foreign Trade and, in a large number of cases, they do succeed in obtaining higher rates of effective export assistance. Under the system of dual exchange rate, there is one unequivocal decision as to whether a given export item is to be offered the favourable rate at all, whereas under the existing arrangement, considerable discretion is given to the administrators who are flooded with numerous appeals asking for special treatment. The government has a regular export assistance division and that itself is sufficient temptation for the exporter to put pressure on the government through their EPCs for a frequent stepping up of export assistance in several ways.

RBI's Role

A dual exchange rate only for the export sector, would mean that the Reserve Bank of India would have to pay rupees in excess of its receipts as it has to convert part of the foreign exchange receipts at the favourable rate. As the dual exchange rate regime is to be adopted by abolishing the cash subsidy scheme, the budgetary burden of the government is shifted to the RBI, and the net profits of the RBI would come down to that extent. Essentially, the dual exchange rate regime does not do away with the budgetary burden; it reduces the surplus of the RBI, which is finally appropriated in the central budget. The main advantage of the dual rate system is that, at one stroke, it can do away with the *ad hoc* administrative decisions inherent in the present system and can also do away with the inconvenient and time-consuming process of claiming of export subsidies by exporters. The dual exchange rate would also prove advantageous in another way if the favourable exchange rate is offered only for that portion of the foreign exchange which an exporter agrees to surrender to the RBI net of the import replenishments which he intends to claim. In other words, the exporter should be made to purchase foreign exchange against his import replenishments at the favourable rate at which he converts his export earnings into rupees. Such a provision would result in a lower export subsidy, made available by the RBI through the favourable exchange rate, if the exporter wants to claim his import replenishment in full. It would also give a limited incentive to the exporter to claim lower levels of import replenishments if he finds that the profit on his surplus import replenishments is lower than made available to him at the favourable exchange rate.

If, however, both the policy tools, *viz*, devaluation of the rupee and adoption of a dual exchange rate, are totally unacceptable to the government, the least it could do is to bring about marginal reforms in the present system of import replenishments and cash subsidies offered to some of the non-traditional exports. As the import replenishments are higher than the import contents of these non-traditional exports, an appreciable amount of foreign exchange remains outside governmental control and, therefore, outside its allocative policy. This could be avoided by adopting one of the two following incentives. The present system of offering cash assistance on f o b value of exports should be discontinued and in its place cash subsidy should be granted only to that portion of foreign exchange which the exporter surrenders to the RBI, net of his import replenishments. If the government intends to maintain the export subsidies at their current levels, their rates could be reworked upwards in such a way that the same amount of cash subsidy is available even after it is computed on the f o b export value net of import replenishments. In other words, it would be necessary to replace the current levels of 'nominal' subsidies by our 'effective cash subsidies' indicated in column 5 of the Table. Such a system would offer some incentive to claim lower import replenishments if the exporter finds it profitable. The second alternative, which might be expected to prove more effective, would be to retain the present system of granting export subsidies on the f o b value of exports and to offer an additional incentive for the exporters to claim lower levels of import replenishments by granting a marginally higher level of cash subsidy for the foreign exchange surrendered by the exporter out of the import replenishments earned by him. An obvious shortcoming of the second approach is that, through its adoption, government would be openly admitting that the current levels of import replenishments are higher than the import-input-contents of these exports. Such an admission would imply that the old discredited import entitlement scheme has re-emerged with the full blessings of the government. A compromise solution would be to accept a variant of the first alternative, by introducing a level of cash subsidies higher than our 'effective cash subsidies' (see column 5 of the Table) on the foreign exchange surrendered by the exporter, net of his import replenishments. These higher levels of subsidies would offer a somewhat more attractive inducement for claiming

lower levels of import replenishments. Any solution that is finally adopted should take note of the fact that premiums earned on surplus import replenishments generally tend to be higher than the current levels of cas subsidies on account of the present shortage of foreign exchange.

NOTES

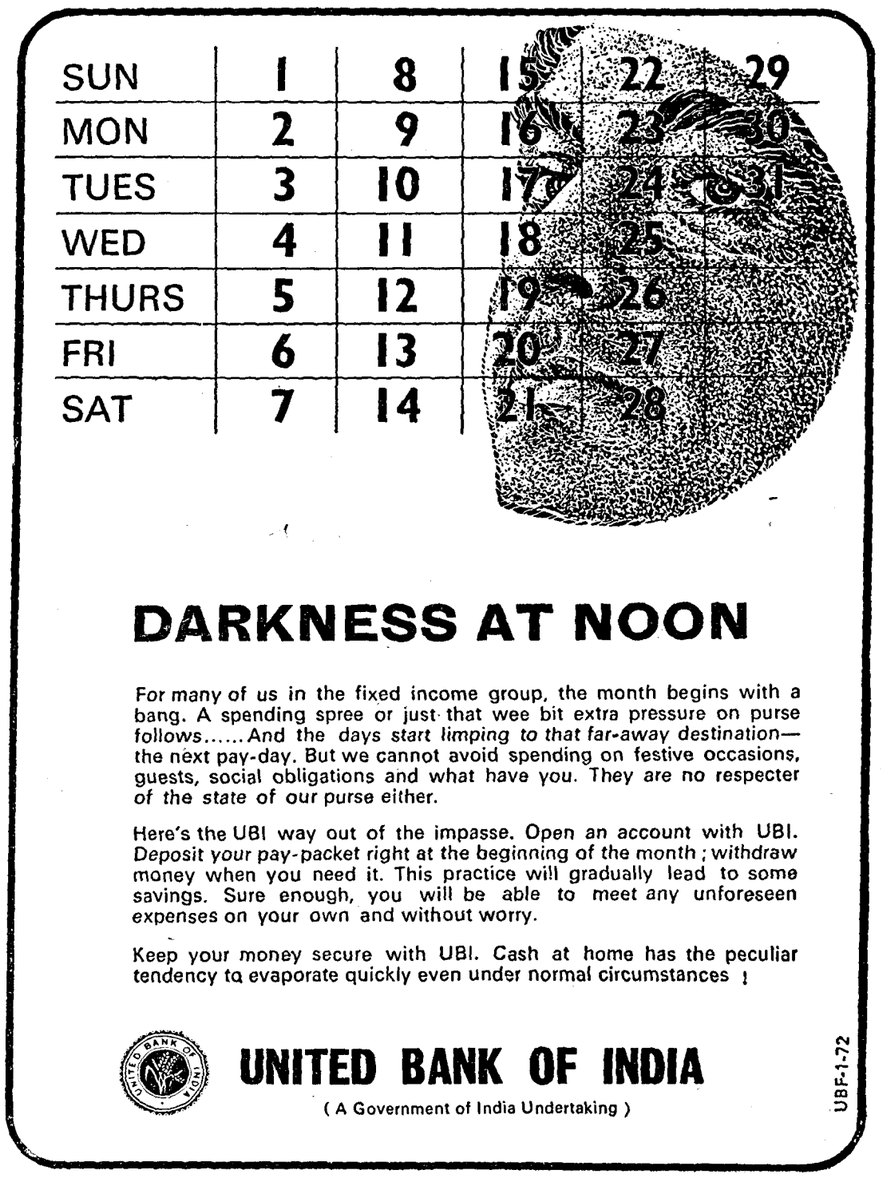
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2 Annual Report, 1963-64, Ministry of International Trade, Government of India, New Delhi, 1965, p 14.

3 R H Patil, *op cit*, pp 1715-16.

4 J B Bhagwati and P Desai, "India, Planning for Industrialisation and Trade Policies Since 1951", Oxford University Press, London, 1970, pp 409-11.

5 *Ibid*, p 413.



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Ceylon, Nepal and the Emergence of Bangladesh

S D Muni

Urmila Phadnis

Consequent to the emergence of Bangla Desh, the power pattern in the subcontinent hasbeen restructured. India is now in a position of indisputable dominance in South Asia. In a way this is not a welcome development for India's smaller neighbours, including Ceylon and Nepal. It invalidates their hitherto pursued strategy by restricting their diplomatic manoeuvrability within the region. It also deepens their existing psychological apprehension of India the 'colossus'.

These doubts along with serious misgivings about 'separatist' movements — particularly on the part of Ceylon — occasioned the marked reluctance of the Ceylonese and Nepalese Governments to back the Bangla Desh movement in its earlier phases, in spite of considerable public sympathy within the two countries for the Bangla Desh struggle. Now that Bangla Desh is a fact, the national interests of the two countries are already moving the two states towards closer ties with Bangla Desh.

I

THE international response to the Bangla Desh issue becomes intelligible in the context of three principal considerations. These are: (i) Two internationally accepted values, one pertaining to human rights and the other to the territorial integrity of an established state. These two values seemed to be in conflict with each other in the context of Bangla Desh. (ii) Concern over the consequences of the breaking up of the traditional power pattern in the subcontinent. (iii) Domestic national interests of the various states.

The debate on the December 7 UN resolution on the Indo-Pakistan conflict revealed that while there was broad sympathy among the international community for the people of Bangla Desh on humanitarian grounds, there was also a noticeable reluctance on its part to acquiesce in the dismemberment of a member state. Underlying this concern for the preservation of the territorial integrity of Pakistan was the desire of many to uphold the *status quo* in the power structure of the region in which some sort of power balance had evolved between India and Pakistan.

Partly due to its own limited power potential, Pakistan's major objective of acquiring power parity with India prompted it to enter into military alliance with the US and subsequently, to look for more allies who could facilitate the attainment of this goal. In the process, it sought and obtained economic and military aid from the US and China, not to speak of the Soviet Union. In its own interest, China gradually cultivated Pakistan as an ally to 'contain' India. As regards the US, it found in Pakistan an ally which did not mind providing a military foothold in the subcontinent in the form of bases.

In the continuation of this power balance both China and the US had vested interests. So was the case with the other regional states, as any change leading to the neutralisation of Pakistan's role *vis-a-vis* India, apart from becoming a threat to the peace and security of the region, also posed new challenges to their limited diplomatic manoeuvrability.

The response of many states to the Bangla Desh issue had its ideological and domestic dimensions too. Broadly speaking, the attitude of many West Asian countries was conditioned by identification of the Yahya regime as the upholder of an Islamic state. Countries like Yugoslavia and Ceylon, on the other hand, defined their attitude towards Bangla Desh in terms of their own minority problems. Faced with secessionist threats, such countries viewed the developments in Bangla Desh as a dangerous precedent, ignoring the causes that led to it. Lastly, the countries with close economic ties with West Pakistan also found it expedient not to view the emergence of Bangla Desh with favour. Within the broad framework of these considerations — universal, regional and domestic — an attempt will be made in this paper to analyse the attitudes of Ceylon and Nepal.

II

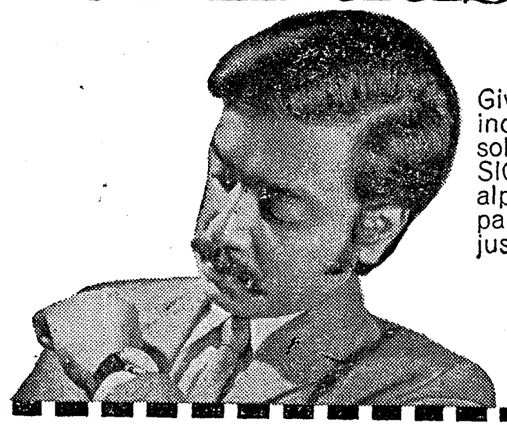
On the question of genocide and the flow of several million refugees into India, Nepal and Ceylon seemed to echo the hollow concern of the international community. This was evident in various official statements of both the countries as also in the Indo-Nepal and the Indo-Ceylon joint statements signed after the visit of Swaran Singh to Kathmandu and Colombo in September 1971. Both the statements expressed concern about the social and economic implications of the influx of refugees into India and urged the necessity for creating suitable conditions for the return of refugees to their homes.[1] The Indo-Ceylon joint statement also referred to the refugees as a problem of humanitarian concern to the international community.

However, official reaction in both the countries avoided any direct reference to the mass killing of East Bengalis by the Pakistan army. And 'suitable conditions' for the return of refugees were never spelt out clearly. Addressing the eighteenth session of the National Panchayat, the late King Mahendra, for instance, merely talked of a solution acceptable to all the parties concerned.[2] Ceylon merely expressed the hope that "accelerated democratic and constitutional procedure" would be used to enable the refugees to return to their homes in East Pakistan".[3]

Caution was a logical corollary to the fact that from the beginning the political upheaval in Bangla Desh was viewed as an "internal affair" of Pakistan. If Nepal expressed its views only in words, Ceylon went a step further and reinforced its words by deeds. An official spokesman in Kathmandu viewed the "East Bengal developments as an internal problem of Islamabad" and stated that Nepal would pursue a policy of "strict noninterference" in the affairs of a friendly country."[4] In the Indo-Nepal joint statement, the term used was "East Pakistani" and not the relatively neutral term "East Bengal". Further, the Nepalese Government did not permit the non-official East Bengal Refugee Relief Committee to raise funds for the refugees in India. Instead, the government contributed Rs 25,000 for refugee relief to the UN.

As regards Ceylon, while the term "East Pakistan" did not figure in the Indo-Ceylon joint statement, the reference to refugees from "East Pakistan" in the speech of premier Sirimavo Bandaranaike in the UN General Assembly

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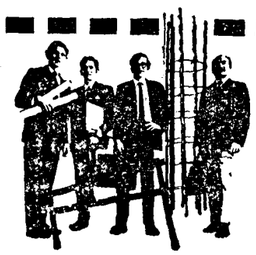
(e) Government of Maharashtra's Package Scheme of Incentives. (SICOM administered).

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on October 12, 1971 was notable. Moreover, the Ceylon Government allowed Pakistani civilian as well as military planes to use its facilities and air space all through the crisis despite protests at home and abroad. The assumption that Ceylon considered the East Bengal crisis to be the internal affair of Pakistan was made explicit by Ceylon's actions.

The breakout of full-scale war between India and Pakistan on December 3 and India's military advance in Bangla Desh followed by its diplomatic recognition of the new Republic upset earlier calculations. Before Nepal and Ceylon could comprehend the direction of change and its implications, they had to take a stand at the UN. Ceylon voted in favour of the UN cease-fire resolution and Nepal abstained,[5] but both of them made it understood that they were against the dismemberment of Pakistan and against the right of secession. They Ceylonese stand was quite pronounced on these issues.

With a war going on next door, both Ceylon and Nepal were for the immediate cessation of hostilities. This was made amply clear by the delegations of the two countries in the General Assembly. Mahendra of Nepal addressed letters to the presidents of India and Pakistan pleading for peace and negotiations to settle the dispute.[6]

Besides wishing to uphold peace on principle, Nepal and Ceylon were guided by other considerations. For Nepal, the war caused the disruption of tourist traffic to the kingdom. The prices of essential commodities like salt, kerosene, petrol, soap, coarse cloth, etc, shot up owing to a slowing down in the movement of these goods from the Indian side. The situation caused some anxiety in Kathmandu. In Ceylon's case, the period of tension before the war brought in short-term economic benefits. It was reported that Ceylonese ports did additional business during this period.

III

The Indian victory in the war disturbed the balance of power existing between India and Pakistan and may have upset the diplomatic strategies of Ceylon and Nepal which were attuned to the existing balance. In view of their geo-political situation which makes them critical points in India's security system as well as their close connections with India, particularly in the economic sphere, any counterpoise to India's power in the region was welcome for political and economic reasons. China constituted the principal counter-weight for Ceylon and Nepal against India. Pakistan, with its limited potentialities as compared to China, was the second counter-weight.[7] In order to use Pakistan in securing political and economic benefits from India through diplomatic manoeuvrability, it was essential for Nepal and Ceylon to maintain a show of friendship towards both India and Pakistan so as not to give the impression to the one of siding against it in consort with the other.

Herein lay the basis for the neutral stance adopted by the two countries towards the issues pertaining to the direct clash of interests between India and Pakistan. The Kashmir issue can be taken as an example in this context. Ceylon whether under a UNP or a SLFP government contented itself by expressing the hope that "its expeditious solution in accordance with the UN resolution or by other peaceful means would be in the interest of peace in the subcontinent and in the region." Nepal on its part also refrained from taking clear sides on the Kashmir question except in 1957. Similarly in 1965, both Nepal and Ceylon adopted a neutral position on the Indo-Pakistan conflict.[8]

In view of the advantages that the then existing balance of power between India and Pakistan provided for the diplomatic manoeuvrings of Ceylon and Nepal *vis-a-vis* India, the two countries were inclined in favour of the *status quo* in the subcontinent. The desire was reflected in their efforts to maintain consistently their neutral stance towards Indo-Pakistan conflict. Mahendra's identical letters to the Indian and Pakistani heads of state have already been noted. The Ceylonese Prime Minister, Sirimavo Bandaranaike declared in the island's parliament on December 1, 1971: "We do not get involved in other's business. We are not prepared to take sides."[9]

Thus Ceylon and Nepal were both sympathetic towards India about the situation created by the refugees. They were also one in mildly demanding a political settlement between the two wings of Pakistan, in supporting the principle of territorial integrity of a nation-state, in being anxious about peace and stability in the subcontinent. They were also equally desirous of the maintenance of the existing power pattern in the region. And yet the stands taken by them towards the emergence of Bangla Desh and India's role in it were not identical as is evident in their reactions in the UN General Assembly and elsewhere. This divergence can be explained with reference to the domestic considerations of the two countries.

IV

The reticence till December 1971 of the governments of the two countries to deal with the issue of Bangla Desh as anything but an internal affair of Pakistan was born out of their respective geographical situations, sizes, histories and social structures. Ceylon has to cope with its million strong Ceylon Tamil minority community, a segment of which has occasionally demanded a separate state. A 'secessionist' movement elsewhere was therefore regarded as potentially contagious, in that it might have affected the Ceylon Tamils in the island. Speaking in the UN General Assembly, the Ceylonese delegate, Shirley Amarasinghe, declared: "This is surely not a liberation movement in the classic and universally understood sense of the term. We would be creating a deadly precedent if we regarded it as such. It could be claimed that it is not only majorities that have a right to be liberated but, and even more logically, minorities. Most countries in this Assembly have substantial minorities — my country has — and must bear in mind the implications of treating the East Pakistan Awami League movement as a liberation movement. If there is to be a reconciliation, the East Pakistan leaders must renounce all secessionist demands."[10] Ceylon was not very impressed by the argument of a majority seceding in the case of Bangla Desh. The heavy concentration of Ceylon Tamils in two of its provinces closest to Tamil Nadu across the Palk Straits, was a major factor in Ceylon's sceptical attitude towards Bangla Desh.

Besides, the continuation of the East Bengal crisis seemed to be beneficial to Ceylon in economic terms. With many of the East Bengal tea gardens in shambles, Pakistan became a keen buyer at Ceylon's tea auctions, particularly of low and middle grown teas. Pakistan's Tea Board, controlling the country's tea trade, was slated to buy 15 million pounds of tea in 1971 as against 5 million in 1970. Pakistan's entry into the tea auctions for the low and middle grown varieties resulted in a sharp rise in their price — by about 20 cents per pound.[11] Such an increase may not seem very significant but in a country with an acute foreign exchange crisis, particularly after the April 1971 insurrection, any amount earned in hard currency mattered.

It must be noted that in spite of

these constraints a fairly influential segment of opinion leaders in Ceylon did not approve of the Ceylon Government's East Bengal policy. In fact as early as May 1971, nearly 250 well known persons, including academicians, trade union leaders and members of parliament belonging to almost all parties, issued a statement proclaiming "unqualified support to the struggle of the people of East Bengal for their national liberation". It also urged the government to discontinue the facilities "of our sea and air ports to Pakistan's armed forces on their way to East Bengal as well as all other assistance that would be detrimental to the people of East Bengal. We demand that the Government of Pakistan stop the massacre of unarmed people and withdraw its armed forces from East Bengal forthwith."

The statement, extracts of which appeared in an Indian newspaper, did not, however, appear in the Ceylonese press. During this period Ceylon was already under heavy emergency regulations and was still trying to recover from the April revolt of the People's Liberation Front. The organisers of the signature campaign, explaining the statement's non-appearance in the Ceylonese press maintained that such a statement might be construed by the authorities "as a veiled criticism of the military action against the insurgents at home and might land the signatories on the wrong side of the emergency laws."[12]

Three months later, when two 'screened' Awami League leaders — an MP of the still-born Pakistani parliament and a Buddhist monk — reached Colombo and gave 'first-hand' information of the situation in East Bengal, the sympathisers of Bangla Desh in Ceylon moved once again. Two events — the news of the secret trial of Mujibur Rahman and the week-long festival of Pakistani films in Colombo—provided them the opportunity to organise public protests on the Bangla Desh issue. Several organisations of women, students and teachers as well as trade unions and religious and cultural bodies joined hands to issue a statement protesting against the secret trial of Mujibur Rahman and urging his immediate release. They also called upon the Government of Ceylon to use its good offices to obtain the release of Mujibur Rahman and to mediate in seeking a "proper political solution to the urgent and tragic problem of East Bengal". The protest against the Pakistani film festival was initiated by members of the Ceylon Committee for Human Rights in East Bengal which was formed in August and in which some of the prominent leaders of two of the constituent parties of the ruling United Front — the Lanka Sama Samaj Party (LSSP) and the Communist Party (CP) — were fairly active.

The extent to which the parties making up the United Front were divided on the Bangla Desh issue was evident from the presence of some of the party officials and influential members of the LSSP and the CP in the demonstration which was staged outside the Savoy Hotel when the film festival was inaugurated by a minister belonging to the leading party of the coalition, the Sri Lanka Freedom Party (SLFP).[13] Speaking in the Senate, LSSP Senator Williams declared that even though the LSSP was a constituent party of the government, on important matters like the East Pakistan issue it could take an independent stand. "Massacre is taking place in East Pakistan and it is the intention of the LSSP to create public opinion against this." Further, the delegation which came to attend the International Conference on Bangla Desh in Delhi in September 1971, included Vivian Goonewardene — an LSSP MP — who, much to the chagrin of some of the coalition members stressed in the House of Representatives that the Bangla Desh issue was a national liberation struggle and that her party had always supported such movements. It was also reported that she was active in a signature campaign for the cause of Bangla Desh and had already succeeded in obtaining the signatures of more than one-third of Ceylon's MPs.

Among the other parties the Tamil Federal Party (FP) echoed the concern of the LSSP and the CP as was evident from the speeches of the FP Member of Parliament, V Dharmalingam. But the major opposition party, the United National Party (UNP), remained quiescent till after Shirley Amarasinghe, Ceylon's Permanent Representative, had spoken at the UN. Only then did the UNP leader, J R Jayewardene, move an adjournment motion in the House of Representatives on December 8 seeking clarification of the government's stand. Moving another motion about a week later Jayewardene asked the government to consider whether Bangla Desh should be recognised or not in keeping with the realities of the situation.

As against the tone of the Federal Party MP, V Dharmalingam, who unequivocally asked the government to recognise Bangla Desh, the UNP's tone was restrained and cautious. In keeping with its position as one of Ceylon's two major parties, the UNP has usually held similar views on Indo-Pakistani relations to those of its main rival, the SLFP.

It is noteworthy that on the East Bengal crisis Muslim leaders in Ceylon preferred to remain silent. The leader of one of Ceylon's biggest plantation unions, A Aziz, when asked by the Secretary of the Ceylon Committee for Human Rights in East Bengal to lend his signature as President of the Union to a joint trade union memorandum to Yahya Khan — protesting against Mujib's secret trial — declined to do so.

Notwithstanding the apathy of the Muslims who comprise about seven per cent of Ceylon's population, considerable public sympathy was evoked by the struggle of the East Bengalis. The East Bengali movement received greater credence due to the fact that the minor partners of the ruling United Front lent their whole-hearted support to the movement. This support partly emanated from their ideological predilections. The issue also gave them an opportunity to salvage their 'identity crises' as junior partners in the coalition. Presumably, they were also affected by a guilt complex about the governmental repression during the April insurrection, a repression which was unprecedented in the political history of independent Ceylon, but about which they, as ruling partners, could not afford to be critical.

The criticism from within the coalition on the East Bengal crisis may have embarrassed the government in August; in the changed situation in December it facilitated the government's task. Ostensibly to strengthen the hands of the pro-Bangla Desh groups and possibly also to compensate for its earlier image, the government seemed ready to relax censorship regulations to allow local reactions with a predominantly pro-Bangla Desh bias to be filed abroad.[14]

Despite the increasing public pressure in favour of the recognition of Bangla Desh, whose cause is being spearheaded by the influential 'Friends of Bangla Desh' (previously called Ceylon Committee for Human Rights in East Bengal), it appears that caught between the pro-Bangla Desh and the pro-Peking lobbies within the coalition and prompted by the desire to have relations with the reduced Pakistan as well as the new state of Bangla Desh, the Ceylon Government may prefer to sit on the fence till a large number of countries have recognised Bangla Desh.

V

The struggle for Bangla Desh was in principle a struggle for democracy, freedom and socialism. These are the values for which the Nepali Congress, an arch-enemy of the present regime in Nepal, also stands. Since the very inception of the Panchayat system in 1961-62 under the late King Mahendra's control, the Nepali Congress had been struggling to liberalise and democratise what is called the "autocratic personal rule of King Mahendra". At the international conference on Bangla Desh in New Delhi in September 1971, as well as in a press interview, B P Koirala, the Nepali Congress stalwart espoused the waging of an armed struggle on the lines of that in Bangla Desh for the restoration of democracy in the Kingdom.[15] This statement upset the authorities in Kathmandu. B P Koirala has been living in Banaras since Mahendra released him in October 1968 after eight years' detention. The only way to restrain him from indulging in activities hostile to the King's regime was through the Government of India. And the Nepalese Government did not lose any time in approaching the Indian Government in this context and securing the desired response as was evident from the assurances of Swaran Singh that India would not allow any anti-Nepal activities to take place from Indian territory.[16] Therefore, it is understandable that the Government of Nepal did not wish to disturb India by taking up a position contrary to the latter's interests in Bangla Desh.

The beginning of a shooting war between India and Pakistan on December 3 further brought Nepal closer to the Indian side. Under the provisions of a treaty signed in 1947, Gurkha soldiers (most of whom are Nepalese citizens) of the Indian army fought against Pakistan in Bangla Desh as well as on the Western front and laid down their lives defending India. Many retired Gurkha soldiers were also summoned by India from Nepal.

The general political and economic climate between India and Nepal had also improved while the Pakistani massacres of East Bengalis were continuing. In August, after a long stalemate, the two countries had concluded a new Treaty of Trade and Transit which was vital for Nepal. India had been making large aid commitments to Nepal and the work on the Kosi and Trishul projects had restarted after a long delay. In view of these developments Nepal did not see any point in displeasing India for the sake of Pakistan with which it had almost negligible commercial relations.

Whatever material benefits Nepal could think of from Pakistan were possible from the Eastern wing — now Bangla Desh — and not West Pakistan. Bangla Desh is geographically close to Nepal and it is there that Nepal had been demanding additional transit and port facilities for overseas trade to be conducted through Indian territory at Radhikapur in West Bengal. For bilateral trade as well, Bangla Desh offers better prospects to Nepal. Even culturally, the Nepalease living in Darjeeling, Assam and the Nepal Terai are closer to the people of Bangla Desh than to the West Pakistanis.

The West Pakistanis compounded their disadvantages by their propaganda of *jehad* (holy war) and slander against Hindus and Hinduism. This evoked adverse reaction in Nepal. Though the Pakistani propaganda was directed against India, the predominantly Hindu population of Nepal resented it. This sort of propaganda was resented all the more strongly since a part of the Terai had lately experienced Hindu-Muslim riots. Voicing Hindu resentment, a Nepal weekly wrote, "every Hindu of Nepal feels deeply hurt when Radio Pakistan conducts vitriolic propaganda against Hinduism, Hindu culture and Hindu epics. How long can we tolerate such propoganda?"[17]

Besides, a number of Nepalese nationals working in tea gardens in Bangla Desh were also reported to have become victims of Pakistani military atrocities. These reports were officially denied without convincing evidence. Even if the denials were accepted, there were reasons to believe that many Nepalese were rendered homeless and thus faced hardships along with their Bangla Desh brothers.

In the light of the foregoing discussion one might ask why Nepal did not take a clearly favourable stand towards the emergence of Bangla Desh and India's position in the matter. Partly the question has already been answered in terms of Nepal's desire for peace, territorial integrity of a nation and maintenance of the erstwhile power structure in the subcontinent. Besides, total and open identification with the Indian stand was incompatible with its sense of separate identity. One wonders if China also made any attempt to keep Nepal from falling in line with Bangla Desh and India. There is no clear evidence to support or reject the contention. However, a section of the Nepalese press which usually supports the Chinese line — particularly two weeklies, *Goreto* and *Matribhumi* — was active in upholding the Pakistani stand.

VI

Consequent to the emergence of Bangla Desh, the power pattern in the subcontinent has been restructured. The new balance has pushed India into a position of indisputable dominance in South Asia. In a way this is not a welcome development for India's smaller neighbours including Ceylon and Nepal. It invalidates their hitherto pursued strategy and restricts their diplomatic manoeuvrability in the region. It also deepens their existing psychological apprehensions of India as a 'colossus'.

The old values and structures have crumbled. How and why are now only academic questions. The respective national interests of Nepal and Ceylon will soon begin to compel them to come to terms with the new realities. In fact, that they have already moved in this direction is more than evident. The explanation and implied apology extended by Sirimavo Bandaranaike's government regarding Ceylon's adverse vote in the UN General Assembly may be recalled here. The extent to which Ceylon hastened to correct its earlier stand was evident from the way the Ceylonese delegate spoke, with special permission, in the Security Council (of which Ceylon is not a member), virtually reversing his earlier stand. Shirley Amarasinghe in this later speech regarded a "political settlement in East Pakistan" as the key to resolving the conflict and wanted negotiations to bring about such a settlement and to precede troop withdrawals.[18] Later, it was also reported that Ceylon had declined to support a Pakistani move to re-open the issue in the UN General Assembly.[19]

As regards Nepal, the latest indication of official thinking in this direction was available in the semi-official *Rising Nepal's* reaction to Bhutto's first policy speech. The paper did not appreciate Bhutto's assurance that he would bring about a unified Pakistan.[20] Public opinion in Nepal generally felicitated the new Republic of Bangla Desh.

In the military sphere, both Nepal and Ceylon have had some experience of India's military power. The pattern of the Indo-Nepalese relationship in the fifties and India's assertive posture created some hostility and heart-burning in Nepal and had to be gradually rectified, though in a limited manner. As regards Ceylon, the speed with which Indian military aid reached there last April impressed it tremendously. It also rekindled Ceylon's lurking fears about the military might of its neighbour. India's swift success in the recent war might add to these fears. The question uppermost in the minds of the leaders of Ceylon and Nepal will be to what extent and in what way will the 'new' India be interested in accommodating their interests and aspirations. The pattern of development of the Indo-Bangla Desh relation-

ship will be of great interest and concern to Ceylon and Nepal.

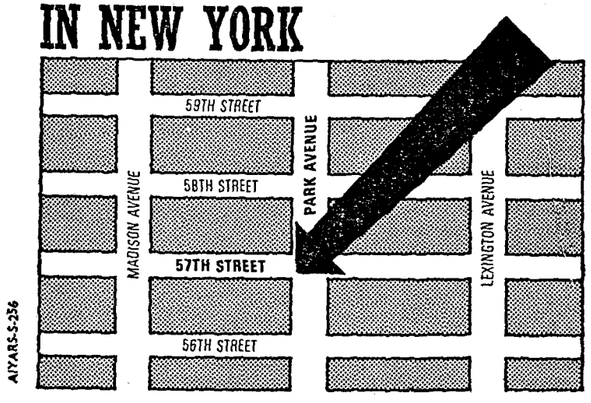
In this respect a segment of Ceylonese public opinion raised a question in April-May last year which has become even more pertinent today. It wondered whether India was going to be the 'policeman' of South Asia. And if so, who was going to define and set the norms and conditions of such a role.

Due to all these complexities, the emergence of Bangla Desh poses manifold challenges to Indian diplomacy in the South Asian region. It simultaneously opens up avenues for greater intra-regional co-operation. Leaving the initiative for co-operation in the hands of the neighbouring states could be the wiser course for India to follow.

NOTES

1 For the text of these statements see *Ceylon Daily News*, September 13, 1971 and *Rising Nepal*, September 6, 1971.
2 *Motherland*, July 31, 1971.
3 See the text of Sirimavo Bandaranaike's speech in the UN General Assembly. United Nations General Assembly, *Provisional Verbatim Record*, A/PV 1962, October 12, 1971, p 8 (mimeo). Similar sentiments were also expressed in the Indo-Ceylonese joint statement, *Ceylon Daily News*, September 13, 1971.
4 *Times of India*, August 17, 1971. Earlier, speaking in the National Panchyat on August 10, Foreign Minister Rajbhandari maintained that while the situation in East Pakistan was tragic, it was the internal affair of Pakistan arising out of Pakistan's internal problems, *Commoner*, August 11, 1971.
5 The resolution sponsored by Argentina and 18 other states called upon India and Pakistan to take all measures forthwith for an immediate cease-fire and for the withdrawal of their armed forces from each other's territory. For the text of the speeches of the Ceylonese and Nepalese delegates see United Nations General Assembly, *Provisional Verbatim Record*, A/PV 2003, December 7, 1971, pp 11-20 and pp 111-12 (mimeo).
6 *Gorkhapatra*, December 9, 1971.
7 Nepal's skill in exploiting the regional balance of power between India on the one hand and China and Pakistan on the other has been discussed by S D Muni in his unpublished Ph D dissertation on "Foreign Policy of Nepal", University of Rajasthan, Jaipur, 1971.
8 For a detailed discussion of Ceylon's and Nepal's policy towards Pakistan see Urmila Phadnis, "Ceylon and India-Pakistan Conflict", *South Asian Studies* 2(1), January 1967, pp 41-58 and S D Muni "Nepal-Pakistan Relations — A Partnership in Expediency", *South Asian Studies*, 5(1), January 1970, pp 63-78.
9 *Patriot*, December 2, 1971. Subsequently, Sirimavo Bandaranaike was reported to be keen on convening a summit conference of Asian leaders with a view to evolving a formula to restore peace in the Indian subcontinent, *Statesman*, December 10, 1971. The fast moving events leading to the surrender of the Pakistan army in Bangla Desh on December 16 and the declaration of a unilateral cease-fire by India on December 17, brought an end to the idea of a summit meeting.
10 United Nations General Assembly, *Provisional Verbatim Record*, A/PV 2003, December 7, 1971, p 17 (mimeo).
11 *Economic Times*, October 25, 1971.
12 *Ceylon Daily News*, August 20, 1971.
13 *Times of India*, August 28, 1971.
14 *Statesman*, December 13, 1971.
15 *Indian Express*, September 20, 1971.
16 *Rising Nepal*, September 6, 1971.
17 *Arti Weekly*, December 20, 1971.
18 United Nations Security Council, *Provisional Verbatim Report*, S/PV 1615, December 15, 1971, p 16 (mimeo).
19 *Hindustan Times*, December 27, 1971.
20 *Rising Nepal*, December 22, 1971.

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Six Blind Men of Hindostan—I

A Study in Management of the Economy

Arthagnani

The Report of the Car Prices Inquiry Commission and the Supreme Court judgment on car prices mark an important landmark in the country's effort to run a managed economy. It is necessary to examine not only the immediate findings of the Commission but also the broader issues arising out of the whole process of judicial inquiry started by the application of Premier Automobiles Ltd to the Supreme Court.

This article examines the report of the Car Prices Inquiry Commission. The issues arising out of the Supreme Court judgment will be examined in another article, to be published next week.

THE procedures adopted by the Sarjoo Prasad Commission* for inquiring into car prices were about the same as those of the Tariff Commission: the usual paraphernalia of cost accountants and technical 'experts', the visits to and from car and ancillary plants, the questionnaires [sample question to car assemblers: "Do you have an Industrial Engineering Department?" Appendix 3(a)], the evidence by witnesses and the arguments by 'learned' counsel (the word counsel is always prefixed by 'learned', lest ordinary people think that counsel can be anything but learned). Evidently, even if justice was not in fact done, it had to be seen to be done.

COSTS AND RETURNS

The Commission divides the total price of cars under two heads — costs and returns — which is where the first sleight of hand occurs, as in the much publicised 'exclusion' of warranty costs and allowance of 16 per cent return on capital.

The Commission has divided 'costs' under seven items — direct materials, direct wages, manufacturing overheads, administrative overheads, selling and service expenses, depreciation and royalty — and made estimates for each item. To this the Commission has added 'return' as defined by it, and arrived at fair prices for the three car manufacturers.

The Commission's definition of return, however, is peculiar. The Commission, for example, states: "...we have... excluded the net warranty claim from the cost of passenger cars worked out by us. This item is ... taken into account while determining the fair return for the car manufacturer" (VI/8.8).

* Report on the Fair Selling Price of Ambassador, Fiat and Standard Herald Passenger Cars, Main Report and Appendices. Throughout the text, references to the Commission should be interpreted as referring to the Sarjoo Prasad Commission.

The return on capital is thus expected to "meet the requirements of the car manufacturers to defray the financial and other charges and leave them with sufficient balance to pay reasonable dividend to the equity shareholders" (VII/7). Thus while the Commission disallowed interest, warranty expenses and minimum bonus as costs, the same items were allowed as return. It includes in returns essentially four items: warranty costs, minimum bonus to labour, interest on borrowed funds and due payment to shareholders (VI/8.8). In actual fact, the Commission has allowed only a 10 per cent return on ordinary shares "after providing for the tax liability of the company and other outgoings to be fair and reasonable" (VI/8.7) to shareholders.

Even the procedure used to arrive at return is peculiar. The Commission calculates capital employed per car on the basis of capacity as fixed by it, and then finds out that the return, as defined by it, amounts to about 16 per cent. It then applies this 16 per cent rule to the individual car manufacturers (VI/8.8). Where a manufacturer has a higher capital employed per car, it automatically becomes entitled to a higher return — irrespective of its own ratio of warranty or minimum bonus cost to capital.

On this basis the Commission arrives at the following prices for the three cars (as at July 1970):

(Rs)

	Ambassador	Fiat	Standard
Ex-works cost	14,299	13,564	13,989
Return	1,470	1,223	1,231
	15,769	14,787	15,220

For comparison, it might be noted that the Tariff Commission had recommended, in its 1968 Report, a price of Rs 14,120 for Ambassador, Rs 13,300 for Fiat and Rs 12,485 for Standard.

Having thus arrived at detailed calculations regarding costs and returns on many items for July 1970, the Commission made *ad hoc* adjustments (as, for example, 5 per cent reduction in capacity) to arrive at the corresponding figures for September 1969.

WHAT ARE COSTS?

The car manufacturers have thus got everything they wanted; they are least concerned whether warranty expenses and minimum bonus costs are called costs or returns, so long as they are included in the final price allowed. Apparently, the Commission was concerned more about such quibbling than about principles; and this is most evident in its examination of costs. The Commission's own views on fair prices are clear: "... price will be fair to the manufacturer when, after meeting the cost of production, there is left a reasonable margin of profit" (IV/4). The question then arises: what is "cost of production"?

Taking one item of cost, the Commission states: "The costs of bought-out components were taken at the value of procuring them" (V/4). The Commission later admits that "... quite a number of ancillary items for sizeable amounts are being purchased by all the three manufacturers from those ancillary units in which they are interested. It would also appear that the prices charged by some of these units with respect to some of their supplies are somewhat higher and in some cases lower than those at which they are available from alternative sources" (XI/8). This would not have been such a new discovery to the Commission had it read carefully the Tariff Commission's "Report on the Fixation of Fair Selling Prices of Automobiles" (1968). The Commission also admits: "Quite a number of important ancillary units are better off than the car manufacturers in the matter of earning profit" (XI/9). Yet instead of examining this problem and arriving at a judgment as to the fair procurement price for bought-out components, the Commission became privy to the as-

semblers' attempts to siphon off profits to their personal associates, using the "short time at the disposal of the Commission" (XI/8) as an excuse. The Commission states that "[it] is conscious that fair price does not mean fair only to the manufacturer, but also to the consumers" (IV/4). Is the Commission's treatment of cost of bought-out components "fair to the consumers"?

The Commission has evidently accepted everything that is currently spent by a company as costs. These costs are based on a detailed calculation of the items listed above. As befits a body headed by an ex-judge, the Commission even states: "No doubt, legal expenses incurred in the usual and ordinary course of business of an organisation are expenses which should be allowed in the computation of the cost of a product . . ." [VII/6.3(iv)].

But is this a valid concept of cost? The whole management science is moving away from the auditors' concept of costs where everything supported by a voucher (provided by a supplier of goods or service, or self-made) is a cost, to validity of the expenditure for earning the revenue (whether in the short or in the long run).

There are two ways in which this can be done: either the cost incurred is justified *per se* or is checked against other evidence — in the present case, for example, against one another's costs among the three manufacturers.

As regards *per se* justification, a manufacturer who uses out-dated machinery or has excess staff is likely to have high costs. It is known that Hindustan Motors has had poor maintenance and replacement of equipment; it is also known that Premier Automobiles is over-staffed at all levels. Moreover, Standard Motor's capacity is so small in relation to the required scale in the automobile industry that its costs have little business logic. Should a consumer pay for these "costs" of the manufacturers?

As regards *inter se* consistency, the Tariff Commission's report on car prices (the Government decision on which led to the present inquiry) gave a large number of examples in which the car manufacturers were paying different prices for the same functional item bought out by them. Should the manufacturers be allowed to pass on these higher prices to the consumers — particularly when the Commission itself admits that ancillary manufacturers were making large profits and the car manufacturers had personal interests in some of these ancillary manufacturers? Is this not a case of a conflict between the personal and corporate interests of the managements of car manufacturers?

The Commission does not show any awareness of these principles, and swallows what is fed to it by the manufacturers.

Companies' Representations

Apparently, realising the farcical nature of the 'inquiry' at an early stage, the companies themselves got in on the act in the full spirit — and tried to get in as many items as possible either as costs or as return. Hindustan Motors fired the first shot by stating that the price should not be related to the quality of the product (IV/1) — even though the whole inquiry was being conducted under a section of the Industries (Development and Regulation) Act which deals with quality and prices! It later argued that its "achievable capacity" for commercial vehicles should be taken at a low figure "in view of its inability to sell more than this number" (VII/4.1)!

As regards its claim for including Rs 5.75 crores balancing equipment "exclusively" needed to balance its car capacity (the inclusion being intended obviously to increase the base on which return is calculated), the Commission found that some of the machinery was "common to both cars and trucks"; some machines were for "replacement"; some items were already "included in the list of plant and machinery said to be in the process of installation"; one item, said to be under installation in 1970-71, was found to have "already been installed in 1969-70" (all quotes from para VII/4.12).

Hindustan Motors then claimed 'pigging' as an inevitable cost, claimed low use of local steel per car in relation to actual amount of local steel purchased, and also claimed cost of ECKO seal compound and nickel anode when it was not using these items or not using them to the standard claimed by it [VII/6.3 (i)].

Later, in an attempt to inflate costs impartially at both ends, Hindustan Motors made claims both for *past* expenses like pending bills [VII/6.3 (iv)] and *future* expenses like "amortisation of dies intended to be purchased" [VII/6.3 (vi)]; incidentally, the die-life was proposed to be amortised on 40,000 stampings — which was quickly changed to 80,000 by Hindustan Motors' "learned counsel" when the actual in the past was found to be more than 150,000 stampings [VII/6.3 (vi)].

Not to be outdone, Premier Automobiles started off by claiming a capacity lower than its actual production (VIII/4.1). Premier also made claims for "remuneration to managing agents" (when the managing agency system has ceased to exist), "previous year's expenses", "donations" and "penal interest levied for delayed payment of sales tax" [all quotes from VIII/6.3 (iv)].

To beat all this, the Commission also reproduces the evidence of a dealer, G Sagar Suri of Delhi Automobiles Pvt Ltd, who claimed that he had been "losing Rs 25,000 per month for the last three years on account of the sales of Ambassador cars" (X/11). Such philantrophy is touching, but the dealer did not produce his books of account in time to prove it.

As regards Hindustan Motors, the Commission notes that the Executive Vice-President of Hindustan Motors "tried to explain away the various statements . . . by giving evasive answers . . ." (VII/4.10). Later, the Commission notes that "the data furnished to the technical team were vastly different from what were furnished by the company to the officers of the Directorate General of Technical Development" (VII/4.11). Hindustan Motors stated that it had difficulty in selling its commercial vehicles because it "had not been permitted to manufacture the more powerful Bedford diesel engine. It has, however, been admitted by Shri Lahoty [Executive Vice-President, Hindustan Motors], Witness No 7 for the manufacturers, in course of his evidence, that permission to manufacture these engines was given to them as far back as 1963 and they have actually been manufacturing these engines since 1968" (VII/4.14).

The hearings were evidently a free-for-all at which companies made representations and 'learned' counsels made arguments as they liked. Any similarity between these representations or arguments and actual truth, as the film script-writers state, was purely coincidental. And yet the Commission, at the end of the Report, solemnly "thanks the representatives of industry" and also pays "our tribute to the lawyers of the parties" (XIV/2).

Consistency in Representations

The degree of inconsistency, noted above, exists not only in representations made to the Commission, but also in the general representations of the car manufacturers. It is generally considered as a joke that a partner keeps three sets of accounts: one for income-tax, one for his partner and one for himself. Evidently this is actually a fact with our automobile manufacturers.

The car manufacturers have apparently one set of calculations for indigenous content: the Commission, with its manifest gullibility, puts down the indigenous content of Fiat at 99.25 per cent (VIII/1.2) and Standard Herald at 96.75 per cent (IX/1.1). Yet when it comes to the question of imports,

each manufacturer is interested in maximising the value of import licences got by him. This leads to an obvious contradiction in the representations made by the car manufacturers. Given the per car allowance of import quota, the car manufacturers are interested in exaggerating their manufacturing capacity (in order to maximise their import licence), while, given the need to maximise their capital employed per car, they are interested in minimising their manufacturing capacity (to obtain the largest amount of return on capital employed). Thus while Hindustan Motors was asking for import licences on the basis of a capacity of 30,000 cars, it claimed a capacity of 24,000 cars (VII/4.1) before the Commission for price fixation! So also, Premier Automobiles' capacity was 16,200 cars (VIII/4.3) for import licence purposes, while it was 12,000 cars for price fixation purposes (VIII/4.1).

The Commission hardly makes any technical investigation into these three sets of representations: regarding indigenous content, installed capacity as represented for import licence purposes and installed capacity as represented for price fixation purposes. It only adds its own hunches to the calculations, thus literally adding a fourth dimension to the set of accounts.

Manufacturing Capacity

Essentially the Commission was appointed to make an 'expert' inquiry into car prices. It is evident, however, that the inquiry was shallow (the Commission frequently refers to the limited time at its disposal) and the findings are often no more than the personal opinions of its members.

This is most evident in the Commission's discussions on the installed capacity of the car manufacturers. The Commission duly refers to the role of bought-out components and of versatility of equipment in making passenger car or commercial vehicle components. Having thus paid its homage to the text-book formula, the Commission goes about its own way in estimating the capacity of the manufacturers. Thus, in determining the capacity for Fiat cars, the Commission swallows the fantastic principle: "Company's claim is that by reducing the commercial vehicle capacity to the extent of 2,500, it has been able to increase the car production by about 4,800 . . . Roughly, therefore, the ratio of commercial vehicle capacity to car would be 1 : 2. It would thus appear that if the diversion of the commercial vehicle capacity to the car side is taken into account alongwith the resultant effect of the productivity drive, it can easily be assumed that the manufacturing capacity of the company on the car side must have increased in 1969-70 to more than 15,000" (VIII/4.9).

This statement, besides being meaningless in engineering terms, raises a whole host of issues. Firstly, this original analysis (regarding the car/truck ratio) is not at all used in determining the capacity of Hindustan Motors which also makes both cars and commercial vehicles. Secondly, on this ratio basis, Telco should be able to produce 50,000 cars! One wishes it did, so that, as in the case of truck-buyers, car-buyers are spared the need to buy the products of Hindustan Motors and Premier Automobiles — now at the fancy prices allowed by the Supreme Court. Finally, with this inter-change of capacity, what role does licensing policy play, particularly since the car manufacturers have established their right to higher prices under another provision of the same [Industries (Development and Regulation)] Act? But these are issues which do not seem to concern the Commission.

The quotation also shows the discretionary (rather than expert) basis on which the Commission arrived at its findings and made its recommendations. As regards Hindustan Motors, the Commission states: "... we feel that it would be fair and equitable to fix the productive capacity of the unit at 30,000 cars per annum which, in view of what has been pointed out above, may appear on the low side" (VII/4.13).

Regarding Premier Automobiles' capacity (VIII/4, paras 1 to 14), the whole discussion is full of phrases like "it would thus appear", "it can easily be assumed", "must have increased", "it is reasonable to suppose", "can reasonably be fixed" . . . and so on. In the process, in three paragraphs (VIII/4, 10-12), the Commission manages to knock down the capacity of Premier Automobiles from 10,000 commercial vehicles (claimed by the Government) to 8,100 (VII/4.10) and 7,000 (VIII/4.11), to finally 6,000 (VIII/4.12); significantly, this is lower than the number of commercial vehicles (6,184, *vide* VIII/4.1) produced by Premier Automobiles in 1960-61! Not only that, this capacity, being determined exactly for July 1970, the Commission allows a reduction of 5 per cent (a rule of thumb used in all cases), stating that the capacity of Premier Automobiles on this basis "can reasonably be fixed" (VIII/4.14) at 13,300 cars and 5,700 commercial vehicles for September 1969!

Quality and Warranty Expenses

The Commission discusses at various points the question of quality of the cars; in fact, the whole price inquiry was linked to the question of quality. The Commission's findings on the quality of cars are by no means new or startling. The Commission refers to the Pande Committee's findings about lack of quality consciousness among car manufacturers, and states that "[it] is inclined to hold the same view . . ." (VI/2.3). The Commission states that the quality of the three cars remains poor. Evidently, automobile manufacturers have deviated from their collaborators' standards (IX/9.3) and lowered quality standards. And Standard Motors justified this practice on the ground that the collaborators had concurred in the change (IX/9.4). Standard Motors also supplies the Anti-Roll Bar as "an optional fitment (at extra cost)" which the Commission recommends should be supplied as "standard fitment without additional cost" (IX/9.8).

Despite these findings, the Managing Director of Premier Automobiles, following the current fashion among our bureaucrat-managers, has tried to shift the responsibility for the poor quality of cars to suppliers, though both the Pande Committee and the Commission found that defects were also found in components manufactured by the main producers (for example, specifically for Premier Automobiles in VIII/9.2) and the Commission categorically states: "It is the responsibility of the manufacturer to see that he gets the right type of material for manufacturing the components of right quality and that the bought-out components from the ancillary suppliers are of proper quality, dimension and shape" (VI/2.3; see also discussion in VI/6 on warranty expenses).

It is this total carelessness of Hindustan Motors and Premier Automobiles for quality which left them without any demnad when a buyers' market developed in commercial vehicles. If Telco can produce good quality commercial vehicles, operating in the same environment as Hindustan Motors and Premier Automobiles, why cannot these other two producers? It is only the absence of Telco in the car-manufacturing field which perpetuates the hold of Hindustan Motors and Premier Automobiles on the market. And given this record of these two manufacturers, was the Commission justified in stating that the existing manufacturers of cars should be allowed expansion (XIV/14) or would the government be justified in sanctioning them additional capacity? Or is it that, on appeal to the Supreme Court, the Supreme Court will ask the government to issue an industries licen-

ce for additional capacity, as it has asked the government to allow a higher price?

The Pande Committee's recommendations on quality control have not been carried out by the assemblers or, when they have been claimed to have been adopted, have not led to any improvement in the product. According to the Commission, "The Company [Hindustan Motors] has no manual of Inspection and Quality Control" (VII/9.2). The procedure adopted by the Commission of including warranty expenses in returns, referred to earlier, has its own drawback: it is well known — and this is corroborated by the Pande Committee on car quality — that car manufacturers are tardy in paying out even accepted warranty charges. Now that warranty charges are included in 'return', the manufacturers will have an added incentive *not* to meet such charges (as it would reduce their return) and the consumers will have no right to enforce such warranty claims (since these are not costs): apparently the manufacturers are to have the best of both worlds under the Commission's dispensation.

Given this situation, the Commission could at least have required the whole amount of warranty expenses (allowed as a return to all manufacturers) to be put into escrow; all warranty claims should have been met out of this account, and if the account showed a deficiency, a charge made to the car assemblers to cover it. The surplus, if any, would be transferred to the manufacturers only after the manufacturers had introduced quality control and inspection standards set by the Pande Committee. In the absence of such safeguards, the claims of car users have gone by total default.

The whole inquiry of the Commission is based on such inadequate data. The Commission states: "On an examination of the cost records kept by the Company [Hindustan Motors], it was found by the Cost Team and the Chartered Accountant that the company was not maintaining adequate cost records or data to ascertain the manufacturing costs at a particular point of time" (VII/3.2). This is how the Commission describes the accounting practices of Hindustan Motors: "At the end of each year an inventory is taken of all the stocks in hand and in process and after considering the opening stock and purchases effected during the year the consumption of various raw materials and components is arrived at" (VII/3.1). This system of accounting would do credit to a grocery, but one wonders whether this is the best basis for maintaining the records of an automobile assembler.

This is not a new complaint. The Jha Committee had complained about the record-keeping practices of the assemblers (II/9). It is in this context that the Commission's whole logic of price fixation becomes subject to question. By its recommendations, the Commission has given blank cheques of more than Rs 4 crores to Hindustan Motors Rs 2 crores to Premier Automobiles and more than Rs 1 crore to Standard Motors to be honoured by their customers. While one need not shed tears over the fate of car buyers (including government servants who have a 5 per cent quota of cars and have introduced an income-tax exemption for car expenses), one can still question the basis of such transfer of income.

The least the Commission could have done to protect the interests of the consumers would have been to put some obligations on automobile assemblers. For example, it could have asked that the price rise allowed on Ambassador cars should be put under escrow in a separate public account, and be transferred to Hindustan Motors only if it satisfied the Commission, or a specified authority, by the introduction of a record-keeping system, that proper accounting records have been introduced by the company.

Technical Competence

The Commission had not the competence to carry out the task within the time alloted to it. As it admits (III.1), it had no background on the development of the automobile industry in India. The Commission states: "The multiplicity of components which go into the manufacture of a car make the costing of an automobile a very laborious and time-consuming exercise" (V/1). Further: "Such a study [time study for various jobs] by the Technical Team of the Commission in the limited time at its disposal was not possible" (VII/4.11). And at various places (for example, XI/8), the Commission refers to the shortage of time available to it for its inquiry.

Essentially the Commission adopted a narrow legalistic approach to the problem facing it. The legalistic approach is also evident in the citing of all kinds of case law (IV/3, VI/5.2, VI/5.5), including some rather ancient cases relating to English maritime and war law (VI/5.4 and VI/5.5). One is amazed that even in a matter of price fixation so much attention should be paid to legal precedents (which is all that the Commission seemed to know) and none to management practices (which is a primary determinant of costs but which the Commission never seems to have heard of).

The Commission makes elementary observations on accounting principles (V/12), and even wonderingly observes: "Apart from the actual expenses incurred in cash or otherwise in the relevant year of account, there are some other expenses in respect of which there is no cash outflow. One of such items is depreciation" (VI/4.1).

The Commission's discussion of depreciation (VI/4.1 to 11) is elementary and, by accounting concepts, outdated. It defines depreciation as "a provision made for the loss of expenditure incurred on account of the user of the assets" (VI/4.1), and asks: "Is it for the purpose of measuring the income of the undertaking after providing for all costs or is it a provision for replacement?" (VI/4.4). The Commission considers it the former, though in reality it is both. In fact, some companies, like Philips (in Holland), have already started giving information on replacement cost and on income after providing for depreciation on replacement cost basis. But repeating the oft-repeated difficulties in calculating replacement cost (mostly owing to technological changes) and citing the Bhoothalingam Committee, the Council of the Institute of Chartered Accountants in England and Wales, and even the poor Tariff Commission (VI/4.10), the Commission rejects replacement cost as a basis for calculating depreciation.

The Commission's ignorance of the economics of automobile manufacture is also evident from its observation: "It would, therefore, be in public interest that the management [of Standard Motors] should take immediate steps to improve its productivity and capacity and also to reduce its dependence on outside sources in respect of items which increase its cost of manufacture" (IX/4.11). It should be apparent that, given the scale of manufacture, the component cost for Standard Motors must be high, and it is only an ancillary manufacturer who can, by batching and standardisation of components, produce them cheaper. If the Commission was that concerned about "public interest", perhaps public interest lies in the merger of Standard Motors with Ashok Leyland or, otherwise, its closure. It is evident that the Commission had not the qualities needed to make a fair appreciation of the technical issues involved in fixing the price of a product like a car.

Obiter Dicta

Not content with failing to execute its task in a satisfactory way, the Commission does not hesitate to get into issues which are hardly its province. It thus makes *ex cathedra* pronouncements on policy issues which are strictly the province of the government. Moreover, the Commission makes these pronouncements in an absolute sense — when the issues which it pronounces on are matters of relative judgment.

Firstly, the Commission argues that cars are a necessity, mainly because they are used as taxis and by ordinary people. The Commission states that "... the authorities should take into consideration the fact that under the present circumstances, a car is fast becoming an item of necessity" (XII/3). But how is one to define a necessity? This is a relative concept. Not so long ago, a police court ruled that ordinary people visit restaurants to see cabarets (since the Commission would insist on citing the case, this refers to case No 379/P/71, in 19th Court, Esplanade, Bombay, Vigilance Branch, CID 'K', Gwendelina and others). Would the Commission, therefore, come to the conclusion that cabarets are a necessity and that (as argued later) import of cabaret artistes (which, unfortunately for the Commission, is banned) should be freely allowed?

The Commission then refers to the heavy taxation (it quotes the NCAER's figure of 46 per cent, *vide* XII/1) on automobiles, and suggests reduction in it. Was it competent to do so, and has it evolved any principles to justify this suggestion? As is known, the government imposes taxes on coarse cloth and matches which, one thinks, are used by a larger number of ordinary people than cars. How is one to recommend that taxes on cars, rather than cloth or matches, should be reduced? If the Commission is so concerned about the level of taxes, it should also have taken into account the various tax reliefs allowed to industry (including a tax allowance to car-users which inflates the demand for cars).

Extending its argument from this premise, the Commission suggests that import licences should be freely given to car manufacturers. The Commission states: "The car industry should be brought on the priority list of industries and foreign exchange should be made available to it more liberally for procuring in adequate quantity, such raw materials/components as are not available at present in the country" (XIII/9). Is this proper? Given limited foreign exchange resources, a government has to allocate the supply between competing uses: how can the Commission, looking at a problem *in vacuo*, argue that import licences should be given liberally to car manufacturers? The government has in the past imported foodgrains against PL 480 imports and has rationed foodgrain supplies. Would the Commission say that imports for car manufactures should have priority over foodgrain imports?

So also the Commission asks for an increase in capacity for car manufacturers. The Commission states: "In order to meet the rising demand for cars, there is a case for expansion of the existing units and also setting up one or two other manufacturing units in private or public sector" (XIV/14). Is this justified? As argued earlier, given the conduct of Hindustan Motors and Premier Automobiles in a sellers' market would it be justifiable to issue them expansion licences? And where investment resources are limited, is car manufacture more important than fertiliser manufacture — or even truck manufacture? Evidently such social choices do not bother the conscience of members of our upper-crust elite who constituted the Commission.

One accepts that the Tariff Commission which is concerned with broader issues of growth of industries, is competent to make recommendations on ancillary matters. No such right evolved on the Sarjoo Prasad Commission whose task was confined to recommending fair retention price to producers for a standard quality product. In view of this, these views must be deemed to express not the impartial findings of the Commission, but the personal prejudices of its members. These sallies of the Commission into economic policy issues raise the question: is this the kind of logic which, in future, is to determine how the economy is to be managed?

FROM THE CHAIR

Indian Oxygen Limited

Statement of the Chairman, Mr N Dandeker

THE following is the Statement of Mr N Dandeker, Chairman, Indian Oxygen Limited, which has been circulated to the Shareholders along with the Company's Annual Report for the year ended September 30, 1971:

Despite several favourable developments in the economy, the year under review saw considerable slackening in the tempo of industrial growth. Foodgrains production was satisfactory for another year; and although several parts of the country were affected by severe floods during the recent monsoons, the future outlook for foodgrains remains hopeful. The growing prosperity in the rural sector opened up unprecedented scope for marketing of industrial products. Unfortunately, however, the rate of industrial growth was much lower than the target set by the Fourth Plan. There were sizeable shortfalls, both in overall investment and industrial output. Industrial growth was inhibited, inter alia, by shortage of materials, particularly of raw cotton and steel, and the Government inspired restraints on credit. Entrepreneurial initiative in the private sector was significantly thwarted by the negative industrial licensing policy and restrictions imposed on industrial expansion and diversification by existing industrial units under the Monopolies & Restrictive Trade Practices Act, 1969. Inevitably therefore, prices continued to rise; and the massive deficit financing resorted to by the Union and State Governments posed a threat of unbridled inflation. The only encouraging feature was the country's performance in the export of industrial products.

Political instability persisted in West Bengal, where a substantial part of the Company's capital is invested. The coalition government formed after the mid-term elections to the State Assembly in March 1971 resigned at end June 1971 and the State was again placed under President's Rule. Conditions in West Bengal continued to be unsettled and the law and order situation unsatisfactory, although towards the end of the year under review there was some improvement. Unlike in many other parts of the country, there was no entrepreneurial interest for revival of industrial activity, notwithstanding certain measures initiated by the Government to promote investment and create

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employment opportunities in the State. The crux of the problem of industrial revival in West Bengal still remains the law and order situation, on the one hand, and the stranglehold of militant trade unions, on the other.

The results of the mid-term elections to the Lok Sabha in March 1971 dispelled the atmosphere of political instability at the Centre. Unfortunately, from almost the very beginning, the new Government was faced with several problems of gigantic proportions caused by the influx of millions of refugees fleeing from a nightmare of horror in Bangla Desh. This has created serious political and social tensions in the country and put security in the Eastern Region under severe strain, apart from imposing an intolerable financial burden on the nation. These unforeseen developments have put the country's resources under further pressure and imperilled the resilience of our economy. Added to this is the threat of imminent war. It is a grim prospect that lies ahead of us; and in meeting it with courage and fortitude, the Government and people of our country can count upon full and unstinted support from this Company.

It is against this background that the performance of the Company during the year under review has to be considered.

Sales

Despite the acute shortage of steel and several other raw materials the Company's turnover for the year, at Rs 20.52 crores, exceeded the previous year's turnover (Rs 17.37 crores) by 18.1 per cent. Exclusive of excise duty, which was imposed on industrial oxygen and welding electrodes in May 1971, the increase was of the order of 16.6 per cent.

Higher sales were achieved at all branches, and of nearly all products, with significant increases in the sales of arc welding consumables and equipment. With the better availability of cylinders, sales of medical gases and equipment showed appreciable improvement. But it was unfortunate that demands for certain industrial gases could not be fully met at some of our branches despite spare manufacturing capacities due to the constraints imposed by government under the respective industrial licences. Again as a result of government policies, — or the lack of them, — sales of dissolved acetylene suffered seriously during the second half of the year when a shortage of calcium carbide necessitated restrictions on production, much to the inconvenience of our customers. The shortfall in the availability of indigenous calcium carbide was anticipated by the Company as far back as 1969; and the need for substantial imports by December 1969 was urged upon the Government of India. Nevertheless, it was not until recently that steps were taken by the Government to import calcium carbide through the State Trading Corporation; and at the year end we were yet to receive our first allotment!

Our export sales suffered a set back, mainly due to delay in the renewal of the bilateral trade agreement between India and Egypt. However, we continued to export nitrous oxide, argon, other industrial gases and electrodes to a number of countries in Asia and Africa.

Profit, Taxation and Dividend

The profit for the year, before taxation but after providing depreciation of Rs 82,13,000 (previous year Rs 83,98,000), amounted to Rs 2,01,58,480 as against Rs 1,90,21,031 last year. Bearing in mind the rising costs and the fact that the accounts for the year have been burdened with an additional charge of Rs 46.51 lakhs in respect of bonus for the previous year arising out of a settlement reached with the Company's trade unions during the year under review, the increase in profit may be regarded as satisfactory.

Tax provision for the year amounted to Rs 1,29,00,000 (previous year Rs 1,14,00,000) leaving a net profit of Rs 72,58,480 as against Rs 76,21,031 last year. After transferring Rs 3,50,000 (previous year Rs 3,50,000) to Development Rebate Reserve and writing back from this account Rs 6,50,000 (previous year Rs 13,00,000) now released, the amount available for appropriation was Rs 75,58,480 which has been transferred to General Reserve. The corresponding figure of profit at Rs 1,21,71,031 last year was particularly high because of the higher write-back from Development Rebate Reserve and also because of the excess tax provision of Rs 36,00,000 of preceding years written back.

After careful consideration of the Company's present and future resources position and all other relevant circumstances, your directors have decided to recommend that the dividend rate should be maintained at 14 per cent subject to deduction of tax. If this recommendation is accepted, the dividend will be paid out of General Reserve.

Finance and Share Capital

During the year under review the Company made a further repayment of Rs 39,00,000 against the Medium Term Loan granted by Punjab National Bank. An amount of Rs 4,50,466 was repaid to The British Oxygen Company Limited against the loan granted by them.

As shareholders were informed in August 1971, the Controller of Capital Issues declined to accord consent to the Company's proposal to issue 15,40,000 new Ordinary Shares of Rs 10 each as bonus shares on the ground that the proposal failed to satisfy one of the additional guidelines covering issues of bonus shares which were announced *after* the Company's application for consent had been made.

Development and Expansion

In my Statement last year I mentioned that the Company had been granted an industrial licence for the manufacture of open arc continuous electrodes at Ambattur factory. The production of these electrodes was established during the year. The Government of India approved the Company's proposal for the production, in technical collaboration with an Australian company, of certain tabular hard facing welding rods and electrodes: the agreement was signed in July 1971 and steps for its implementation have recently been initiated.

As I indicated at the last Annual General Meeting, the Company's comprehensive plan for the next few years was submitted to the Government of India in February 1971. The plan envisages substantial additional investment of capital and major diversification of the Company's activities, several of these in areas not directly related to our existing manufacturing facilities and products, and in which there is no indigenous technical knowhow available. The plan, which will also significantly increase employment opportunities, is currently under discussion with the officials at New Delhi. In the interest of expediting Government clearances, it was considered advisable to group the projects covered by the plan into separate phases for their implementation. I earnestly hope that favourable decisions in respect of the projects included in the first phase will be arrived at before very long.

In this connection I would like to inform shareholders that one of the major issues in these negotiations is the Government's requirement that the proportion of the shareholding in the Company by The British Oxygen Company Limited (at present 66.06 per cent) should be reduced, not by disinvestment, but by fresh issue of equity ca-

pital to Indian nationals. I am glad to be able to say that British Oxgen appreciate the purpose underlying Government policy in this regard; and for the sake of the Company's future prospects they are agreeable to forego their rights in respect of a further issue of shares by the Company so that the proportion of their shareholding can be reduced to an acceptable level. While we appreciate greatly the understanding shown by British Oxygen, it is important, in the interests of all our shareholders, that further issues of share capital are in conformity with the generally accepted principles of prudent financial management, so that shareholders can be assured a fair return on their investment. Mere over capitalisation of the Company at the risk of having to scale down the rate of dividend can serve no useful purpose. I sincerely hope that this important consideration will not be lost sight of by the Government, not only in regard to this Company's proposals, but more generally in connection with the many facets of its policies relating to capital issues, including conversion into equity of loans advanced by financial institutions.

Management and Personnel

The unsettled conditions in West Bengal during the year under review were accentuated by rivalry, often hostile, between political parties which had their repercussions on the labour front. Absenteeism on an unprecedented scale, especially of shift workers, created serious operational difficulties at factories. Frequent calls of 'bandhs', — state-wide or local, — by various political parties and trade unions caused further disruption in production. Despite this background, industrial relations in the Company's establishments in West Bengal, as elsewhere in the country, were by and large not unsatisfactory, except for isolated cases of stoppages of work for short periods at some units. I am glad to state that the bipartite discussions with the employees' representatives for the revision of service conditions, which had led to satisfactory settlements at several units during the preceding year, were successfully completed for the remaining units during the year under review.

Discussions on bonus for the year 1969/70 were held with accredited representatives of the Company's employees throughout the country at Bombay in February 1971. As a result, a settlement on bonus for three years beginning 1969/70 was signed under Section 34(3) of The Payment of Bonus Act, 1965.

I would like to record my appreciation of these achievements, towards which significant contributions were made by representatives of the employees' unions, thus proving the practicability of securing industrial harmony in a climate of mutual goodwill, trust and confidence. The future progress of the Company will depend more and more on the proper utilisation of its human resources.

The management development plan, introduced in 1967, is now showing results. Individual appraisals have identified aptitudes which have been useful in managerial manpower planning. The training aspects of the plan need special mention. All the officers of the Company have now completed the Unit Management Training Course which seeks to ensure a continued improvement in the performance of officers in their present jobs. During the year under review a residential Management Training Course was held for selected senior officers of the Company. In addition, several training courses were organised to meet the specific needs of individuals and special needs of the Company.

The present Company organisation was introduced in 1961 and has served the Company well over the past decade. However, with the growth of the Company in the sixties and in the light of its ambitious programmes for the seventies, certain changes in the Company organisation have recently been decided upon to gear it to the challenges lying ahead. The new organisation, to be introduced during the current year, aims at greater participation in profit responsibility and accountability and will, I feel sure, encourage the management and supervisory staff to surpass their existing high standard of competence, loyal service and devotion to duty.

Prospects

The Company's present licensed capacities for industrial gases are already almost fully utilised and those for electrodes are expected to be fully utilised within the next year or two. Hence, although prospects in the immediate future continue to be satisfactory, it is plain that without further increases in our licensed capacities we are unlikely to benefit substantially from the additional demands for our products materialising in the country.

The future of the Company depends, therefore, upon the diversification and development of its manufacturing activities. As mentioned earlier, the Company is anxious to launch upon such an endeavour and is fully prepared to harness its undoubted financial, technical and managerial resources in the services of the growing Indian industry. I hope that notwithstanding the in-built constraints of the Government's economic and industrial policies, the Company will be allowed to play its due role in the nation's struggle for rapid economic development. There is fortunately some awareness in New Delhi now of a considerable slowing down in the tempo of the country's industrial activities. There is also some degree of unanimity, at least, in endorsing the view that increased production is the prime need of the moment. One hopefully expects that the Government will approach the problem with pragmatism and realism within the broad frame-work of the Fourth Plan's socio-economic objectives without making a fetish of the mechanism for their attainment.

Notice must be taken, however, of the massive influx of refugees and the consequent growing tension between India and Pakistan over the Bangla Desh issue. There is increasingly threatening belligerency on the part of Pakistan. Much against its will, the country may thus get involved in hostilities with Pakistan. Any such development will have far reaching effects on the economy and consequently upon the affairs of Indian Oxygen, the full extent of which it is difficult to assess at the moment.

Personal

For some time now I have been reducing my responsibilities and commitments under medical advice; and soon after I sign this Statement I shall be relinquishing office as director and Chairman of the Company's Board of Directors. It is for me personally a sad moment, for over the years I have developed an almost personal attachment for the Company. My only source of some comfort will be that I shall be handing over my responsibilities to a very worthy successor, Mr A K Sen, the Company's former Managing Director. I feel confident the shareholders will, as I do, extend a warm welcome to him to pilot the Company's affairs in the challenging tasks that lie ahead during the current decade.

I take this opportunity of expressing my deep appreciation of the unfailing support extended to me by my colleagues on the Board and also of the invaluable and indispensable "backing" provided by a strong and competent executive management during the entire period of my association with the Company.

N Dandeker
Chairman

November 28, 1971



February 19, 1972

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EXPORTS: GROWTH THAT WAS NOT

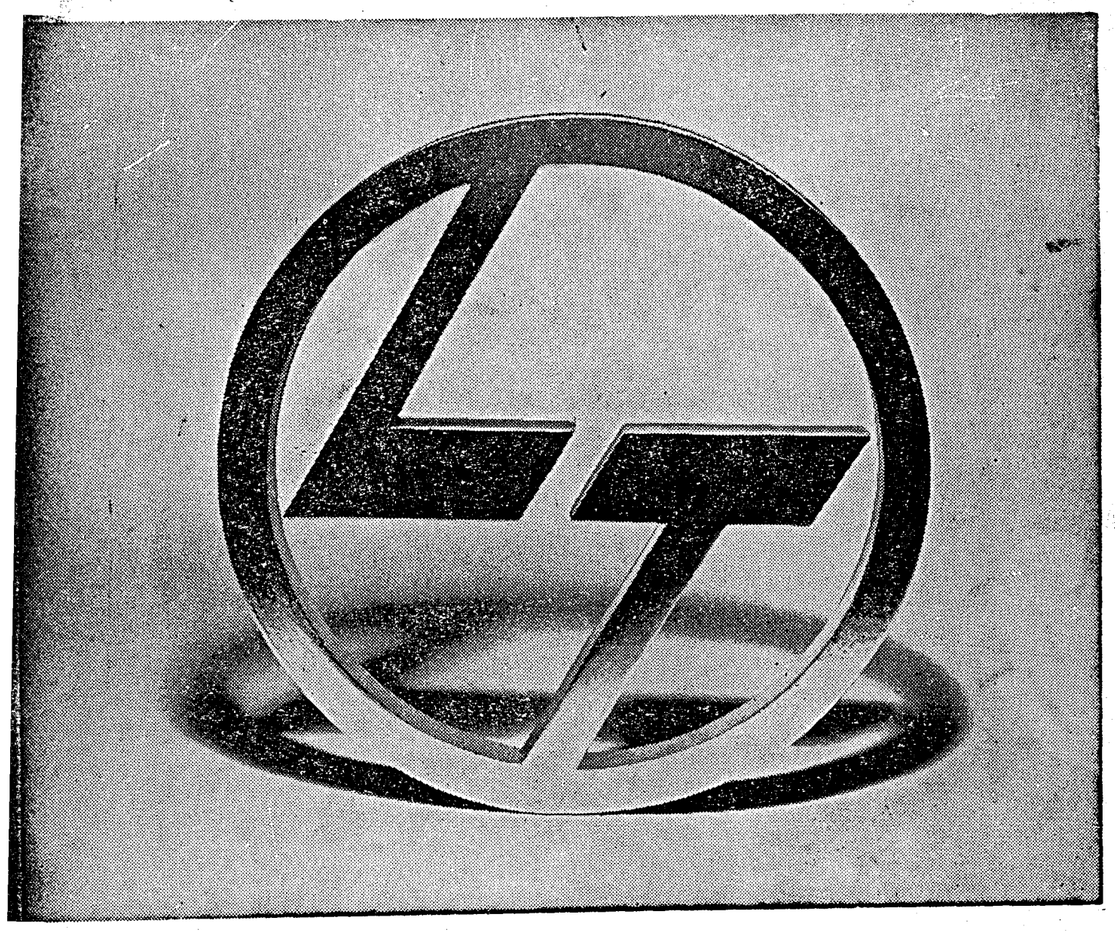
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Living Space?

THE policy of confrontation with and containment of the supposedly monolithic communist menace, which was pursued with bull-headed vigour till the mid-fifties by Dullesian US policymakers, is now past history, although its ugly legacy still survives in the horrors inflicted on the peoples of Indochina. The savagery of US bombings and shootings has been borne with resolve and courage by the Indochinese peoples; but American homes have not been willing to bear the cost in American lives — even though very limited when compared to the number of Vietnamese, Cambodian or Laotian lives lost — and wealth which has followed from US armed action. And quite understandably, considering how remote the whole exercise is from anything that directly affects American security or sensibility. And in an election year, a calculating political operator like Nixon has been doing all possible to remove Indochina from the headlines. There can, therefore, be no doubt that his visit to Peking was timed with the hope — however feeble — that he might just be able to pull off some sort of a deal with Chinese help in getting the US out of Vietnam with 'honour' unsullied.

But since this hope could only have been very faint, the more substantial reasons for the visit are likely to have been far less dramatic than any visions of instant peace in Vietnam. These reasons arise from the very significant foreign policy premise that has slowly evolved since the ending of rigid confrontation between the US and the USSR. With the emergence of China as a super nuclear power, this premise has become more meaningful not only for the United States but also for the Soviet Union. And so also for China. Simply stated, the premise is that the essence of security is to maximise the foreign policy options open to a super power. An abundance of options is particularly advantageous in conflict situations or moments of crisis, in that it allows the super powers greater room for manoeuvre than they have had before.

It is claimed — and reportedly Kissinger is an ardent advocate of all these postulates — that maximising the options should make it easier to maintain the peace between the super powers, as the scope for balancing out conflicting interests is also enlarged. This means that China's attainment of the position of a super power will help towards bringing about an era of peace as there will be greater room for manoeuvre than there was when the only powers that counted were the United States and the Soviet Union.

It is very likely that the Chinese have also been thinking along similar lines for some time, especially because they have been very conscious during most of the last decade about the possibility of an open confrontation with the Russians where the only options open to them could be war or a complete loss of face. This spectre of being hemmed in was probably reinforced by the border incidents with the Soviet Union a couple of years ago and, more recently, by signs of closeness between the Soviet Union and India. There might also have been serious anti-Mao moves within the Chinese leadership, a section of which may have sought Soviet help in changing internal Chinese policies — the 'disappearance' of Lin Piao and five top People's Liberation Army men has not yet been adequately explained. All this, along with the historical Chinese fear of renewed Japanese militarism, explains even if it does not justify, China's calculated shift — all the signs are that the shift took place over a period of several years and was not precipitate — towards establishing 'open' contact with the United States.

In allowing Nixon to invite himself to sup in Peking, the Chinese have tarnished their image among their friends, while America's allies have had no option but to applaud publicly the Nixon visit, even if privately they are piqued by Nixon's one-upmanship. Quite predictably, the Russians are making ideological hay while Nixon smiles in Peking and the North Vietnamese have been curtly hostile and openly suspicious about the visit. Revolutionaries all over the world, and especially in Afrasia, will be disenchanted by the Chinese about-face and may even be forgetting that the enthusiastic Soviet pursuit of their own nationalist, and at times expansionist, goals, may be part of the reason that China is seeking some sort of dialogue with the United States. In fact now that China has demonstrated that it will not allow itself to be isolated, both the Russians and the Chinese might start working towards minor accommodation of each other's interests; none of the three powers wish to be too closely tied down by one another. That is also why Nixon made sure that he would visit Moscow as well as Peking.

So, while many lesser nations have been watching the Nixon sojourn in China with eyes somewhat agog, all that the three powers are probably doing, is seeking more living room to co-exist with each other. And ideological inhibitions are easily cast aside by all three when they want living space.

Exports

Growth That Was Not

WHO does not remember the ecstacy over the 8.6 per cent growth in exports in 1970-71? The Fourth Plan's ambitious export growth target of 7 per cent per annum had not only been met but handsomely exceeded. The low growth of 4.1 per cent in 1969-70, the Plan's first year, had been fully compensated for. True, there were some discordant notes. There was, for instance, the seemingly innocuous change in the manner of compilation of export statistics from November 1970. On a closer look, it turned out that this had the effect of inflating the export figure for 1970-71 by some Rs 70 crores. On being corrected for this, the export growth in that year came down to about 4 per cent, or no higher than in the previous year (see "Exports: Sluggish Undercurrent", January 8).

Worse news is to hand now. The Reserve Bank's balance of payments data, just released, show exports in 1970-71 at Rs 1,403 crores. This is actually *lower* than the RBI's figure of Rs 1,404 crores for 1969-70. So that was the export growth that was not!

The DGCIS export figures for 1970-71 showing the 8.6 per cent growth had been released by the Foreign Trade Minister, L N Mishra, with much fanfare at the end of April 1971. The Minister had then claimed that exports had not only increased at a rate well above the 7 per cent per annum target of the Fourth Plan, they had also belied the gloomy projections of 3.5 per cent growth made by the World Bank in its draft chapter on foreign trade in its annual report on India. The Minister also revealed that he was releasing the export figures after a thorough verification of the DGCIS data by the Economic Adviser to his ministry. And in an effort to appear modest in his hour of triumph, Mishra had added that while the export performance in 1970-71 had been a great success, it was necessary to "guard against any sense of complacency setting in". Exports in 1971-72, he hoped, would rise by more than 10 per cent.

The export performance in the first four months of 1971-72 were good enough to sustain the euphoria. Doubts began to surface only when it was found that the rate of growth of exports was slipping month after month from July 1971. The Reserve Bank's data have now proved that the 8.6 per cent increase in exports in 1970-71 was pure fiction.

It may be suggested that the differences between the DGCIS figure of exports and the Reserve Bank's may be due to differences in the sources of data. But the fact is that, contrary to the common impression, the basic sources used by the RBI and the DGCIS are the same — the GR/RP/PP forms filled in by the exporter at the time of exporting. Before shipping the goods every exporter fills in the GR form in triplicate. The original GR forms are submitted by the exporters to the Customs authorities and form the basis of compilation of export data by the DGCIS. The duplicate and the triplicate forms are submitted by the exporters to the authorised dealers in foreign exchange, *viz*, the commercial banks who, in turn, forward the duplicate to the Reserve Bank forthwith and the triplicate after the foreign exchange receipts are realised by them. It should be immediately clear that the RBI data on exports should not give a picture very different from that presented by the DGCIS data, though some differences may arise on account of late receipt of some GR forms by the RBI. Exports in 1968-69 were Rs 1,367 crores according to RBI data and Rs 1,358 crores according to the DGCIS. For 1969-70 the respective figures were Rs 1,404 crores and Rs 1,413 crores. The differences were thus small enough. Not so for 1970-71, when the DGCIS export figure at Rs 1,535 crores was fully Rs 132 crores higher than the RBI figure of Rs 1,403 crores.

The major explanation for this large discrepancy between the RBI and the DGCIS figures is, of course, the change introduced by the DGCIS in its method of recording exports. Exports were previously recorded on the basis of actual shipments, i e, on the basis of finally passed shipping bills. Since November 1970 exports data are being compiled by the DGCIS as and when consignments are approved for shipment. With average monthly exports of Rs 130 crores, the changed method with its built-in lead of at least two weeks in the recording of exports — and, in a large number of cases, of three to four weeks — means that the new export data are likely to be about Rs 75-80 crores above the actuals for the period.

But this does not fully explain the Rs 132-crore difference between the RBI and the DGCIS export data for 1970-71. The second part of the explanation is to be found in the large-scale 'revision' of export statistics made by the DGCIS on the basis of so-called 'supplementary returns' or late returns received from the ports with, as it was put, "more than usual delay". The revisions pertained to the four months, August-November 1970, the export figure for which period was revised upwards from Rs 514.3 crores to Rs 566.1 crores or by Rs 52 crores. Revision of export statistics for late receipt of the so-called 'supplementary returns' is not by itself something unusual but, till the four-month period referred to above, the revisions had never altered the already released figures by more than one or two per cent. Neither the Ministry of Foreign Trade nor the DGCIS has so far explained why such major revisions were found to be necessary or why in that particular period the supplementary returns had added up to such a staggering figure.

The time has come for the Foreign Trade Minister to give a straight answer to the question: were the export figures for the period August-November 1970 simply revised or were they plainly fudged?

Food Policy

For Whom the Crops Grow

IN an unusual outburst of publicity the Food Corporation of India — the administrative arm of Government's food policy — recently informed the public of its open market operations aimed at bringing down foodgrains prices. Notwithstanding the Food Ministry's recent claim that prices had been stabilised since September last year, the fact is that prices had begun to assert a firm upward trend from December. While the index of wholesale prices for foodgrains showed an average of 215.3 for December, (six points below the September average), prices rose steadily after that to 222.5 by the end of January and hovered around that level early this month — some 20 points above the corresponding weeks of 1971.

And all that time FCI had a sizeable stock with it. Why was it asked to come in only now, although the rise might have been anticipated, and why are its sales limited to an urban western centre like Bombay? Ostensibly, it was the damage to the kharif crops caused by the flood and drought last year which was responsible for the upward trend in price, and this was no doubt reinforced by the siphoning off due to the additional demand generated by the Bangladesh refugees and the stock-piling pressures generated by the war. Yet, by November, the FCI had already built up stocks of 7.5 mn tonnes, well beyond its target — even procuring, on instructions, partially damaged grain; FCI's problem then, it was claimed, was of storage and of transport to storage points. The necessary distributive function of a public agency with stocks of this order was never discussed. Even now, the role of price management is a limited one. Thus with operations confined to the Western sector while prices there have started to fall, they continue to rise or be firm in the other regions. Quite apart from all this, price stabilisation through open market operations is at best a palliative: it assumes the free operation of private trade with official intervention only when the situation tends to get completely out of hand.

If the purpose of food policy is to make foodgrains more evenly and equitably available — as between the good and the bad years, between the surplus and the deficit regions, and between the affluent and the poor — a more consistent approach to procurement and distribution has to be formulated. Particularly in an economy where the purchasing power of large sections of the population is so low as to put even rationed foodgrains outside or barely within their reach, there is a case for increasingly getting towards a controlled purchase and distribution system. The case is strengthened by the fact that investments elsewhere will be channelled into demand for foodgrains or will mean a changing pattern of food consumption, so that a food situation under control is one of the prerequisites of successful plan execution. Of any such long-term intent for food policy there is still no outward sign. Instead, the FCI has often been used to lend support to the market-oriented farmers in years of excellent crop. Although funds, as has been generally acknowledged, are no bar to the FCI's operations, food policy has not gone beyond its limited aims of buffer stock accretion and support operations. On the other hand, food zones and restrictions on inter-state movement of foodgrains, designed to achieve some regional parity, have been progressively removed: first for coarse grains, then for wheat; and they might have been removed for rice if, as the Minister of State for Agriculture declared last November, the kharif crop had been a better one. Even the number of fair-price shops — which in any case are not intended specifically for the poor — have been reduced.

The point about 'support' prices being an 'incentive to sustained growth' is not as straightforward as it is made out to be by the Chief Ministers and the FCI, and it eventually impinges on Government's own agricultural programme. It may be that prices higher than those recommended by the Agricultural Prices Commission have in the past been politically desirable to facilitate procurement. But their continued maintenance over the years, despite the rising productivity through the HYV especially of wheat, has protected the farmers so much from market forces that there has often been a scramble to produce more wheat, at the expense of the other crops, and to extend the area under it far beyond what is warranted by the agricultural plan itself. That scramble has even been enshrined in the annual programme for HYV extension. Such an emphasis on wheat can only be justified if the aim is to augment overall production of foodgrains in order to ensure an adequate grain intake for the entire population. This aim makes sense, however, only in a far more controlled and egalitarian economy, to which we do not seem to be immediately aspiring.

There is a second way in which high support prices for wheat impinge on policy, requiring as they do a sizeable subsidy for the grain sold through fair-price shops. The burden of subsidy must be a definite disincentive for their multiplication. Especially now that the far cheaper imported foodgrains, which accounted for 40 per cent of the grain sold through the public distribution network, will no longer be available, the size of the subsidy would have to be far larger this year. Higher issue prices or diversion of developmental funds to subsidise the market-oriented farmers thus seem to be the alternatives before the Government which, past experience suggests, will opt for the latter.

Tamil Nadu

DMK and Industrial Labour

E A Ramaswamy writes:

COMING within a year after its massive victory in the general elections, it must have been a traumatic experience for the DMK to eat humble pie in what is now known as the Simpson strike. The DMK's about-turn was brought about not so much by the Simpson workers as by the combined force of trade unions and political parties in the state. But it would be misleading to construe the opposition of the other parties as mere political antagonism. The DMK is now the biggest political party in Tamil Nadu and has been playing big brother to other parties in the past two elections. But the DMK, in spite of all its popularity, has never really managed to get a foothold among organised labour. That is what the DMK is now desperately after, and what the other parties are determined to thwart.

The significance of trade unions to the other parties, particularly the smaller ones, lies in the fact that they offer the only source of support which the all-powerful DMK has not yet been able to penetrate. Some of the smaller parties draw almost all of their strength from organised labour. This, for instance, is certainly the case with the PSP. Its bastion is in the HMS union in Coimbatore which has controlled between 15,000 to 20,000 workers for over a decade and a half. It was in recognition of this that the DMK offered the PSP four seats for the Legislative Assembly in the 1967 general elections even though this party had not won a single seat from Tamil Nadu in 1962. These parties, in spite of the electoral benefits they have gained by aligning with the DMK, have been cool towards it. In Coimbatore, for instance, the INTUC, HMS, and AITUC unions, in spite of the wrangles among themselves, have been unanimous in their determination to side-step the DMK-sponsored union. Nor have parties such as the PSP allowed themselves to be unduly bullied by the DMK in their determination to keep it out of unionism. In 1970 a big stir was launched in the industrial suburb of Singanallur near Coimbatore against the DMK's proposal to name the newly built ESI hospital after C N Annadurai. This was not merely an attempt to impose DMK heroes in a place where the party had no following; it was construed as an attempt to re-write the history of the textile workers' struggle to build up a trade union movement — a struggle which was in fact opposed tooth and nail by the Justice Party, the precursor of the DMK. That the hospital still remains unnamed is evidence of the determined opposition which the DMK was up against. This further shows that the opposition to the DMK in the Simpson strike is not an isolated case, nor a recent development. It is merely a case which has received a lot of publicity.

One reason for the DMK's failure to build up a trade union movement is that by the time it began taking an interest in organised labour the three national federations were already firmly entrenched. What the DMK encountered, however, was not merely well entrenched labour unions. It had to counter the political ideology which they had drilled into their members. The trade union movement in Tamil Nadu is deeply involved in politics. Contrary to popular impres-

sion, this involvement is not confined to the top leaders. And there have been instances when even the top leaders have been unable to carry their workers from one party to another. An outstanding example of this is P S Chinnadurai, formerly Secretary of the Coimbatore District Textile Workers' Union affiliated to the HMS, who is now in the SSP.

If the DMK wants a foothold among organised labour it has to offer an alternative ideology which appeals to workers. Its main planks of Tamil nationalism and opposition to Hindi have been unable to fill the bill. In fact, among the textile workers I know best in Coimbatore, the DMK is considered to be the very embodiment of vulgarity in politics. They consider it unfortunately necessary to align with it for the sake of political gain, but this does not mean an endorsement of its policies.

The DMK's assumption of power in 1967 has further deflated its image among organised labour. The opinion is widespread that the DMK government does not have a labour policy worth the name. It has been nothing more than a fire brigade, attempting to quell the flames where they erupt, often in collusion with the employers. In Coimbatore many prominent mill-owners who formerly stood four square with the Congress are now known to be pro-DMK. This will certainly not boost the image of the DMK. Nor, for that matter, will foisting an unwanted leader on a successful trade union, particularly when the leader happens to be one who could not establish a base for the DMK in nearly a decade among the textile workers in Coimbatore.

BUSINESS

Imports Well Organised, But...

ESTABLISHED in August 1970 to ensure uninterrupted supplies of raw cashewnuts 'at fair prices' to the export-oriented sector of the industry, the Cashew Corporation of India (CCI) has nimbly stepped into its role. The cashew industry is predominantly dependent on imports of raw cashew for processing. Till August 1970, these imports used to be effected through innumerable traders, and competition among them for supplies had led to the bidding up of import prices and neglect of quality. The major supply sources, on the other hand, such as Tanzania, Kenya and Mozambique, had organised their sales through Produce Boards, which further weakened the bargaining strength of the Indian buyers. The Cashew Corporation was to rectify that situation. This technical task it has been performing competently, securing raw cashew at reasonable prices with weight and quality guarantees, ensuring a measure of stability in prices and supplies, and effecting significant economies in freight and insurance costs. However, while the CCI in its first annual report maintains that unlike in the past its own selling prices have remained unchanged and unrelated to the rising kernel prices, it does not indicate whether, as a result of its intercessions, raw nuts have been available more cheaply to the export-oriented cashew industry.

But then that still is a marginal point in any overall perspective of the industry. What emerges from the CCI's own report is the secondary position of imports in any long-run assessment and tackling of the cashew industry's problems. The cashew industry's more fundamental problems lie in its high dependence on two major markets—the US and the USSR —, and its 're-export' character even while there is no established reason why cashew cannot be successfully grown in India. As the Corporation's report points out, the cashew tree originated in Brazil but was transplanted into East Africa and South-West India by Portuguese missionaries in order to prevent soil erosion. If the cashew tree has taken so well to the East African plateau soil and has multiplied so successfully there, why can it not do so in India? It is known that the cashew tree requires soil that would otherwise lie fallow and that even today it grows wild and remains commercially unexploited along many of the Western coastal areas. At least part of the reason why cashew cultivation (the tree takes four years to fructify and 10 years to reach its peak yield) has never been undertaken on any significant scale must be that imports have been readily available. These now show signs of gradually tapering off, with the raw nut exporting countries setting up their own processing units. What is more, since their industries have been set up more latterly in the sixties, these countries have been able to employ in their units the mechanical decorticating techniques that were developed at the time; they are thus also able to offer cheaper rates abroad.

Meanwhile, the Indian industry—or rather, its labour—has felt the squeeze between the declining selling prices and the rising import prices. Although the industry grew in an unregulated manner under conditions of monopsony, is largely in the unorganised sector and often uses sweated contract labour, it is by now significant not only as a foreign exchange earner (though earnings declined from over Rs 62 crores in 1968-69 to about Rs 52 crores in 1970-71) but as an employer of labour (employing some 75,000 workers). Both the Centre and the state of Kerala where the industry is mostly concentrated therefore have an interest in setting its ills right, even as the industry at the moment is in a position to hold them to ransom. The State Cashew Development Corporation in Kerala was set up to put the industry on its feet. The prolonged closure of units in 1971 made SCDC consider take-over of some of them. It would be a pity, however, if the State Corporation in the long run had to spend its energies in micro-level management when it has so much developmental work to undertake, both in terms of market diversification and promotion of cashew as a substitute for other popular nuts and in terms of indigenous raw cashew production. A determined state government, with the support of the Centre, could meanwhile put an end to labour exploitation through the application of minimum wages legislation and regulation of working conditions.

Shipping

A Share for Bangladesh

A Correspondent writes:

MEMBERS of the Karmahom Conference are to meet at the end of this month or early in March to decide about the Bangladesh Shipping Corporation's application for membership of the Conference. Events have followed quickly upon the announcement by the Bangladesh Government of its shipping policies on January 22 which contained a categorical statement that it did not recognise any agreement or arrangement that may have been made by the Government of Pakistan. Two days later, the Director-General of Ports and Shipping and Managing Director of the Bangladesh Shipping Corporation (BSC), Captain Rehman, went to London and contacted the Karmahom Conference headquarters to sound them about the entry of the newly constituted shipping line into the organisation. The Conference headquarters then sent a high ranking delegation to Dacca to make an on-the-spot study of the situation. The delegation is believed to have recommended the acceptance of the BSC's application for membership.

The admission of the BSC to membership of the Conference should present no problem. But the question of working out anew the proportionate shares of revenue for Bangladesh and Pakistan is likely to present some difficulties. While it has yet to acquire adequate tonnage for overseas trade, the BSC is believed to have come to a sort of *ad hoc* arrangement with the Shipping Corporation of India for assistance in lifting cargo on its behalf. It is known to have told the Conference organisation that it would expect a 45 per cent share in the earnings from carriage of Bangladesh's import-export trade. It is unlikely that the Conference would readily agree to this and the negotiations on the subject are likely to drag on for some time. The Conference is likely to offer a much smaller share to the BSC initially, which would be raised gradually over a period of time as the BSC is able to build up its fleet to justify its claim to be the principal carrier of Bangladesh's foreign trade.

The position is likely to be complicated by another factor. The Pakistani authorities are known to have put up their shipping companies, who are members of the Conference organisation, to raise the demand that they be compensated for the loss of their trade in the carriage of Bangladesh cargo. Whether a majority of the members of the Conference will concede the demand and agree to give a higher percentage to the Pakistan lines in their home trade or to benefit them in some other way remains to be seen. The Pakistani shipping lines already get 45 per cent of the freight earned from the carriage of cargo between UK and Pakistan and 40 per cent of that earned from trade with European ports. On the face of it, there would appear to be little scope for raising these proportions. But what attitude the European members of the Conference take in the matter may well be influenced by the Western countries' anxiety to shore up Pakistan.

In the meantime, there is a distinct sense of disappointment among private sector Indian shipping companies over the preference being shown to the Shipping Corporation in the transportation of materials being sent to Bangladesh from the Rs 25-crore grant sanctioned by the Government of India. Some of these shipping lines have gone as far as to urge the shipping organisation concerned to take up the matter with the Government of India.

Sugar

Leave the 'Free Market' Free

THE 1971-72 sugar season will have completed five months by the end of February. Prices at the close of the last season had come down to Rs 185 per bag, thanks to the government's last-minute action—in reaction to the industry's tactics—releasing larger monthly quotas, tightening bank credit, and cutting down the despatch period. The government did not change its sugar policy for the current season, despite industry's periodic forecasts of reduced production—from about 3.5 million tonnes to 3.3 million tonnes and, more recently, to little less than 3.1 mn tonnes. During November, prices were pushed up from Rs 135 to Rs 225 per bag. Then came the 14-day war, and prices would have soared even higher during December if government intervention and public pressure had not held them below Rs 240. Meanwhile, government decided to re-introduce partial decontrol from January 1972. But since the industry refused to supply sugar under levy to the states in December, prices in January increased to Rs 290 per bag. Thus ended the brief, seven-month long, experiment with 'full decontrol' of sugar—during which, the industry's margins had been occasionally guaranteed and higher prices ensured by the government by reducing the market quota releases.

During the sugar debate on December 23, the Food Minister had assured Lok Sabha that sugar would be distributed through fair-price shops at Rs 2 per kg. He even went on to assure members that the free market price would not exceed Rs 2.50 per kg. Yet free market prices have risen to Rs 275 per bag though they did decline to Rs 260 soon after the government warned industry in the middle of January. It is in fact pointless for government to give any undertaking with respect to the free market, once it has ensured that the basic sugar requirements can be met through the public distribution system. It may be recalled that the sugar ration quota in Bombay was reduced from 1.2 kg per month per adult in 1966-67 to 500 gm in 1967-68. It was later gradually raised to reach 2 kg in May 1970 prior to decontrol. Now, with partial decontrol reimposed, the quota for January has been fixed at 2 kg and for the current month at 1.5 kg. The quota is quite sufficient and, while the government may aim at stabilising the level, it should shop bothering about prices in the free market.

It must not be forgotten that sugar remains an item of sophisticated consumption. Cheaper and more traditional gur and khandsari still hold sway in the rural areas, and a sizeable quantity of the levy sugar meant for the rural areas eventually finds its way to the free market in the urban areas. There is another reason, too, for leaving the free market alone. Since 60 per cent of the production is taken over at Rs 150, ex-mill ex-duty, for public distribution, the industry has to make up its margins by selling the balance free market sugar at the best available rates. Moreover, while at the beginning of the season the industry obtained sugarcane at about Rs 8 to 9 per quintal, at present it has to pay between Rs 11 to Rs 12 per quintal. The higher sugar prices together with the excise duty rebate on production in excess of 80 per cent of last season's production, may induce industry to offer maximum cane prices with a view to qualifying for excise rebate. Higher cane prices may, in turn, result in larger sugarcane plantings for the next season.

Indeed, industry's warnings about area under cane having declined by 15 per cent notwithstanding, second forecasts of sugarcane, issued on January 6, 1972, are of a decline in area of only 3 per cent. Government, in fact, estimated that sugar production in this season would be 3.6 mn tonnes. And, while the average monthly release during the previous season was 400,000 tonnes, the actual average offtake was only 375,000 tonnes. In the circumstances, the best thing for the government to do would be to show no concern for free market prices so long as the ordinary consumer is assured his ration supplies at Rs 2 per kg. Higher prices will, on the one hand, restrict consumption and higher production could curb any advance in prices.

Let's Have Silence

Romesh Thapar

THIS election — described by the less respectful as "khaki" — is fast becoming a bore. No issues of any purport are emerging. The reporting in the press consists of a series of banal analyses which inevitably concentrate on competing charismas. I do hope the electorate proves itself tougher, or, in the perspectives sketched by Abu in a recent cartoon, decides to startle us by voting out the poverty of the parties who can only mouth the slogans of 'Garibi Hatao', 'Banish Poverty', 'Reduce Poverty', etc, etc. Then, the best candidates will win — and that might salvage the future.

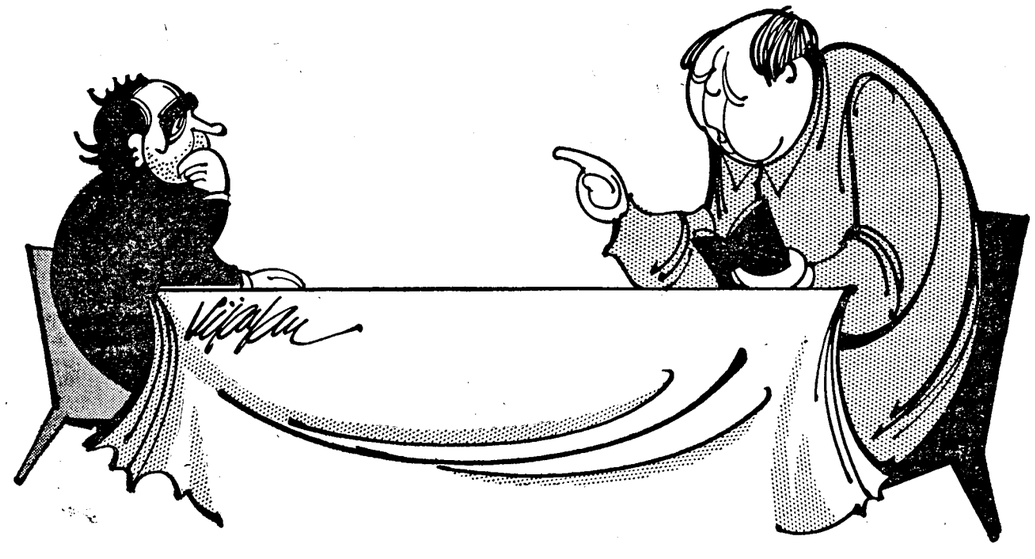
This apparently aimless election — it isn't when you really come to grips with it — has obviously put us at a disadvantage in the post-Bangladesh diplomatic situation. Because the parties opposing the ruling Congress party have no really relevant programmes and are obsessed by the fear that the people might be too influenced by the recent victory against Pakistan, all manner of rather delicate issues concerning the cease-fire, Bhutto's position, the final peace settlement, our relations with the super powers and in particular with the USA, are under a kind of irresponsible debate. The Prime Minister is compelled to join the game of scoring points when she should in fact be silent.

Silence Is Sensible

Silence is the major weapon that India possesses in this critical transitional phase. We should be viewing in serious silence the attempts Pakistan is making to adjust to the new balance of power. In amused silence, we should watch the antics of the Maoists in Peking and the Nixonites in Washington. We are not a silent people. Unfortunately, quite the opposite. It is for this reason that we take time to appreciate the value of silence.

The daily exercise in responding to this or that statement from Islamabad, Washington or Peking, the daily warning about the consequences of this or that action in South Asia, and the daily dose of pontification in every paper of the country is damaging to our interests. The situation is highly fluid. Many reports are in the nature of 'kite flying', designed to test our reactions. It is better that these matters be handled professionally through diplomatic channels rather than in the market place — for that is what the pattern of electioneering has reduced the arena to. No 'gentlemen's agreements' are possible, because, as I say, the politician is now fighting battles without any sort of solid commitments. The getting of the ticket is the overriding consideration, and how to use a successful ticket for personal advancement is a major criterion of alignment.

Some crucial damage has already been done. Official spokesmen in the USA, even as they announce the immediate possibility of resuming military supplies to Pakistan, claim that a "dialogue" to re-forge Indo-US relations has already begun. Presumably, they imagine that Indira Gandhi's comments on President Nixon's statements constitute a *tete-a-tete*. The sooner these official spokesmen realise that they are very far from a dialogue the better. In fact, diplomatically, it needs to be made clear that whereas the US link is valued, it cannot be repaired unless certain minimum understandings are arrived at. India does not believe in prolonged enmities, but is chary of easy *bonhomie* which covers many a double-cross. Empty vessels sound the loudest.



"This new Thought of mine says: a Dialogue is made up of two Monologues"

Similarly, on China. The impression is sought to be spread that India has closed her options on China following the signing of the Indo-Soviet Treaty of Friendship. To the extent that no anti-Soviet commitments will be made, this is correct. But it is totally false to assert that there is a reluctance to normalise. Many attempts have been made in the past. Now it is China's turn to play — particularly after the Nixon fraternisation. Silence is sense.

As for Pakistan, we need only to wait to see whether Bhutto seeks a peaceful role for his country in the subcontinent. If revanchism, accompanied by militarism, is to be the policy, India has only to watch the further disintegration of that state. Militarism will bring the Punjabis back into dominance, much to the despair of the Pakhtoons and Baluchis. The collision between these three groups could finally seal the fate of Pakistan. A dismal prospect. Perhaps, it is here that we need to do some talking, but quietly, persuasively, for a viable Pakistan is very much a part of the interests of the subcontinent.

Yes, let's have silence. And let's hope that in the apparent silence a great deal of solid work will be done to ensure that we are freed of repeated conflicts and collisions along our borders.

February 21

LETTERS TO EDITOR

Aiding Communalism?

YOUR editorial comment "Aiding Communalism" (January 22, p 132) which refers to the Maharashtra State Muslim Women's Conference suffers from ignorance of facts and the progressive intellectual's predilection to attribute unworthy motives to those who do not share his faith in text-book nostrums. Let me illustrate.

The resolutions on Bangladesh and the Indo-Pakistan war were not, as you imagine, moved with "one eye cocked towards receiving benign and favourable attention of the government". Anyone who knows how an overwhelming majority of the Muslims in India reacted to these developments would have easily seen the purpose of these resolutions at a conference of Muslims. Even if you were familiar with the contents of *The Secularist*, the journal of the Indian Secular Society, you would have thought up some other, less uncharitable, explanation than the one you give.

Secondly, about secularism. You say that it would have been "eminently more 'secular' ... to have placed the emphasis of the Conference on the demand for *a uniform civil code for all communities* rather than getting involved in *puerile discussions on how the Quran should be interpreted* and then asking for a uniform civil code" (emphasis added). True enough; but then what else did the Conference do? Its resolution on this question called upon the government "to bring forward at an early date legislation for the adoption of a uniform civil code *for the entire people of India*" (emphasis added). Nor was there any attempt to interpret the Quran in order to find support for the Conference demand. If there were any references to the Quran or the *Shariat*, they were calculated to place the personal law of the Muslims, like all law, *in a historical perspective*, as a product of social and cultural evolution. This is something different from what you imagine to have taken place at the Conference.

Nor is it true that most Hindus "would consider an attempt at jointly demanding a removal of Hindu and Muslim personal laws as an interference in each other's religious domains". Leaders of the Muslim community would no doubt oppose *any* attempt, whether made jointly by Hindus and Muslims or by Muslims alone, at demanding a uniform civil code. It is not surprising that organisations like the Jamaat-e-Islami, the Majlis-e-Mushawarat and the Muslim League should oppose such attempts; basically, they are opposed to the very ideas of secularism and democracy. If they cannot establish an Islamic state in India (the Jamaat's openly proclaimed objective) or at least ensure for the Muslims the status of a separate, autonomous nation in a multinational state (A J Faridi's claim), they would rather see India disintegrate than evolve as a modern, secular state.

Equally, it is not surprising that even Western-educated Muslims who pose as modernists before their non-Muslim counterparts prefer to remain silent or openly oppose such a demand in the name of 'pluralism', 'diversity in unity', and heaven knows what else. It would be invidious to mention them by name, but I can think of only two eminent Muslims from the academic field, A A A Fyzee and the late Muhammad Habib, who have taken an unambiguously secular position on this question. Of the rest, some lack courage and deserve sympathy; most of them are, however, hypocrites and wish to have the best of both the worlds.

However, the real problem is not the Muslims, orthodox or 'modernist'. As many of them have said to me in private, and two of them said it in public recently at Poona, Muslims would accept a uniform civil code once Parliament has enacted it, though they would protest against it as a matter of form. The tradition and the constitutional theory of Islam are fully in accord with this attitude.

The real problem is the opportunism and lack of understanding on the part of soft-headed, pseudo-secular Hindu politicians, including those in Indira Gandhi's party and government. They value the so-called Muslim block vote more than the welfare and progress of the Muslims, let alone the interests of the country. I call them 'Shia Hindus' (no offence meant to Shia Muslims), because they have neither the courage to be 'true' Hindus in the Jan Sangh sense nor the moral integrity to be truly secular in, let us say, your sense and mine. Till they are removed from the scene, there is little hope of Muslim women getting a fair deal.

Two more points before I close. A separate conference of Muslims need not by itself strengthen their consciousness of separate identity. The Hindu mind is traditionally narcissist and exclusivist. Hindus have therefore neglected the problems of the Muslims and have generally looked upon them as pawns in their own power game. The so-called modernist Muslims, even the Marxists among them, seem to have decided that discretion is the better part of valour. In such a situation, what are the few, non-Establishment Muslim reformers to do? Sit pretty till the All-India Muslim Women's Conference chooses to step out of its boudoir and recognise the existence of the 30 million Muslim women in India's towns and villages?

And who said that the Maharashtra State Muslim Women's Conference was attended by Muslims alone? Apart from the 170 women delegates and quite a few Muslim men, a large number of Hindus, both men and women, attend-

ed it as observers and identified themselves with the cause of their oppressed sisters. Their presence was a source of great moral strength to the delegates.

They badly need such support, for some of them are still — two months after the Conference — being shamelessly persecuted by followers of the Jamaat-e-Islami, the Sunni Jamaat and the Muslim League at Amravati. Among the persecutors are a retired Deputy Collector and two teachers of the Raj Mahavidyalaya in that town. Is this "reinforcing the assumed separate identities of the two communities", or is it inducing a crack in the collectivist, tribal identity of the Muslims?

You fail to see the dynamics of the process of modernisation in traditional societies like the Muslim because you share the communist dogma that the economic factor is the primary, if not the sole, determinant of social change. Like the communists and the non-communist technocrats of growthmanship, you too seem to have forgotten that Marx was a crowning point of the European Renaissance. In the absence of such a renaissance, 'the rich-poor equation' in India can only lead to the rise of a Hindu Stalin — a prospect that no democrat or secularist can entertain with peace.

A B SHAH
Indian Secular Society,
Bombay.

[A B SHAH seems to have missed the point of the comment. To simplify: (a) Poverty, along with its concomitant economic exploitation, is the main affliction of Indian society. (b) In such conditions of material scarcity, communalism is based on, and encouraged by, economic and social compulsions. (c) Secularists generally ignore this and harp on how 'the Hindus are like this and the Muslims are like that'. Shah's letter is a good illustration of this kind of negativism which at the same time refuses to identify the root causes of communalism. *Ed.*]

Significance of Bangladesh

I WAS struck by a few observations in the otherwise well written article by Dhananjoy, "Significance of Bangladesh", in your issue of December 25, 1971 (p 2541). "For one thing", Dhananjoy says, "Bangladesh is the product of a successful armed struggle the like of which had not been witnessed by the peoples of this region in their recent history." How I wish this were true. The truth is that the Indian armed forces brought Bangladesh into being. Maybe, the people of Bangladesh in armed revolt would have won independence sooner or later. But history has had it otherwise.

I agree quite wholeheartedly with Dhananjoy when he says "By attaching far too great an importance to the inviolability of the integrity of the existing states — however illogical or irrational their structures — the international community had evolved an ethos which was fundamentally conservative". So, then, what must happen? Has not India already behaved unconservatively? Can an established government not go all out to assist the liberation struggle of any people? And what loud noises have we not heard from some governments about their serious intention to assist liberation struggles!

A second point. What is this talk about Indian arrogance? How prone to pessimistic visions is Dhananjoy: "the slightest evidence of arrogance in this hour of India's triumph will unite the rest of the world against us". Did he say the world rather than the governments of the world — does international community mean the peoples of the world or the governments of the world? I would be grateful for enlightenment. The cool manner in which for nine months India had held back from rushing to bring Bangladesh into existence except through advocating the inevitability of the emergence of Bangladesh is proof of anything but Indian arrogance. The timidity in accepting the fact of the intervention of India's armed forces — the provocation being offered quite foolishly by the attack on India by Pakistan — hardly squares with the fears of India trying to lord it over Bangladesh.

T V JAYARAMAN
Bombay

Foreign Technology

IN reviewing the NCAER study on Foreign Technology, Baldev Singh says ("Foreign Technology: Role and Control", November 20, 1971) that "Foreign subsidiaries are really responsible for creating islands of foreign technology mostly unrelated to the raw materials market conditions and economic setup to the country". He then goes on to add that they keep local R and D out of bounds without entering into adaptive research. Another allegation is that imports of materials are insisted upon even when locally available. Finally, he concludes, the foreign subsidiaries are estranged from the national economy.

Working in an Indian subsidary of a multi-national firm, with a knowledge of other companies similarly placed, I am afraid his conclusions are superficial and misleading. They may be applicable to certain sectors, but cannot be taken as a generalised statement of fact.

I happen to know from first-hand experience that many 'foreign' firms have contributed to substantial import substitution and the ratio of imports to total turnover has fallen considerably. In fact, in some instances, the import: turnover ratio has been *higher* for the indigenous manufacturers than the so-called foreign competitor. The development of certain industries like cardboard containers has largely been due to adapted imported technology as a result of initiative from the 'foreign' firms. Hence, their so-called estrangement from the economy is largely a myth, although there might be specific instances of misdemeanours.

I would also stress that a large part of the research carried by the 'foreign' firms is certainly adaptive and blind transplantation of technology is frowned upon.

S VENU
New Delhi

Fuel Instruments and Engineers

FUEL INSTRUMENTS AND ENGINEERS exports hardness testers to no less than 17 countries, many of which are themselves exporters of hardness testers. Within a period of 18 months, FIE has produced four new machines — Universal Testing Machine, Strobo-Dynamic Balancing Machine, Erichson Cupping Tester and Brinell Superficial Machine. FIE has fully half its manpower engaged in research and development. It has developed products and components with specific objectives in mind to solve specific problems. For example, when building a prototype Universal Testing Machine, which was developed specially for the Japanese market, there were many problems in getting a new hydraulic system. An economical and efficient hydraulic system had not been made in India yet. Now FIE has designed an all-new system which has been incorporated in the Universal Testing Machine. An entire Electronics Division has been set up at FIE to design the complicated electronic circuitry for the Strobo-Dynamic Balancing Machine.

Mixed Fare

Hansavivek

TRIBENI TISSUES applied for an industrial licence in April 1971 for establishing a new mill in South India, in addition to the existing lines, to manufacture a number of new speciality papers for the electrical and other industries. The mill will have a strong import substitution value, since many of the proposed products are still imported. A site has been chosen in Mysore. The state government has assured availability of power and water to the company but the 'letter of intent' is still awaited. The government has announced that the benefit of development rebate will be withdrawn after May 1974; and A K Sen, chairman, fears that further delay in the grant of an industrial licence will make it 'almost impossible' to complete the project before that time. He has assured shareholders, however, that as far as practicable steps are being taken to ensure speedy implementation of the scheme once the licence is received. A great deal of preliminary work has already been carried out on the design of the plant, and quotations have been received from a number of machinery suppliers.

Meanwhile, the development of jute fibre, as a substitute for the traditional raw material sann hemp, has proved timely as the hemp supply position has been deteriorating leading to sharp increases in prices. The company has been better able to meet the customers' requirements and to reduce the impact of rise in hemp prices.

With the change in accounting period, TTL compiled the accounts for nine months, ended September last, which are not strictly comparable with those of the preceding 12 months. But a deterioration in the latest period is clearly visible from the magnitude of the drop in turnover and profits. This resulted from a 42-day strike, followed by another of 6 days' duration. There were also frequent interruptions in power supply. The current year holds out promise of better results. An agreement has been signed with the Union covering a number of outstanding matters. Production has improved considerably and, with no shortage of demand for the products, sales for the first quarter of the current year have been 'very encouraging'. With a view to developing exports, the company has been giving special attention to identifying new markets abroad and providing better after-sales service. It has entered the American market with a small trial order of copying tissues, and it has also made an initial shipment of cigarette tissues to North Korea.

ROHTAS INDUSTRIES produced disappointing results for the 38th year to March 1971, despite all-round improvement in production at its various units and increase in turnover. This outcome was attributed to rise in expenditure on packing, power, salaries and wages, etc. The position in regard to the current year appears to be worse owing to a 'crisis' in power supply and

The Week's Companies (Rs in Lakhs)

	Tribeni Tissues		Rohtas Industries		East Anglia		Cochin Refineries	
	Latest Year* 30-9-71	Last Year 31-12-70	Latest Year 31-3-71	Last Year 31-3-70	Latest Year† 30-6-71	Last Year 31-3-70	Latest Year 31-8-71	Last Year 31-8-70
Paid-up capital	436	426	605	605	182	182	700	700
Reserves	217	213	167	157	18	23	592	659
Borrowings	—	7	613	587	127	67	1091	1295
of which Term borrowings	—	—	106	165	6	3	1091	1295
Gross fixed assets	724	711	2022	1931	160	133	2817	2758
Net fixed assets	385	391	807	750	129	113	1957	2077
Investments	14	14	60	60	9	9	2	2
Current liabilities	363	329	571	492	51	40	1022	727
Current assets	617	571	991	998	240	189	1446	1297
Stocks	134	131	694	699	118	68	643	454
Book debts	414	396	278	284	109	109	787	574
Net sales	371	544	3181	2593	318	287	4059	3742
Other income	8	18	127	144	5	4	20	19
Raw material costs	108	153	1552	1139	229	190	2462	2195
Wages	68	96	397	364	22	14	55	48
Interest	—	2	61	53	15	11	66	70
Gross profit(+)/loss(—)	78	144	47	137	1	10	355	421
Depreciation provision	21	29	37**	106**	8	7	180	172
Tax provision	22	50	—	—	—	—	—	—
Net profit(+)/loss(—)	35	65	—	—	—7	3	175	249
Development rebate provision	1	3	—	—	—	1	12	117
Transfer to reserves	—	35	—	—	—	—4	51	2
Dividend								
Amount	35	27	—	—	—	7	112	130
Rate (per cent)	8	15	—	—	—	4	16	18.6
Cover (times)	1.00	2.30	—	—	—	0.43	1.45	1.01
Ratios (per cent)								
Gross profit/sales	21.03	26.46	1.47	5.28	0.31	3.48	8.74	11.26
Net profit/capital employed	5.36	10.06	—	—	—	1.10	7.34	9.38
Inventories/sales	36.12	24.08	21.82	26.75	37.11	23.68	15.84	12.14
Wages/sales	18.33	17.64	12.48	14.04	6.92	4.87	1.35	1.28

* Nine months.
** For 1967-68 and 1968-69.
† Fifteen months.

a breakdown in the company's own turbine. The increase in electricity duty, from one paisa to two paise per unit from September last, will cost another Rs 18 lakhs per annum. On account of transport problems supply of raw materials and despatch of finished goods were 'seriously delayed', and this also affected operations. The gross profit shown in the table includes non-recurring items, such as a write-back of certain previous excess provisions of about Rs 12 lakhs (Rs 6 lakhs). Similarly, credit was taken last year for about Rs 50 lakhs, being the surplus realisation from sale proceeds of 2 lakh shares in Jessop. Depreciation, amounting to Rs 44 lakhs, has not being provided. Arrears of preferential dividends aggregate Rs 26 lakhs. Contingent liabilities, not provided for, include claims against the company not acknowledged as debts (Rs 63 lakhs), demands for income-tax (Rs 56 lakhs), sales tax (Rs 12 lakhs), excise duty (Rs 6 lakhs), forecast royalty (Rs 3 lakhs), estimated demurrage and other charges (Rs 12 lakhs), liability for additional fuel surcharge (Rs 16 lakhs), etc. Most of the demands are under dispute. The company has submitted a consolidated application to IDBI, IFCI, LIC, ICICI, for joint financing of the loans required for expansion and modernisation of its paper and chemicals, cement and asbestos, and vanaspati divisions. Of the estimated total expenditure of Rs 15.33 crores, Rs 10.18 crores are proposed to be financed by loans, Rs 2.31 crores by deferred payments, and Rs 2.84 crores by internal resources. The expansion programme is to be completed by 1973-74. A 'letter of intent' for expansion of capacity of paper from 50,000 to 1,25,000 tonnes per annum has been received, and applications for other expansions are being made.

EAST ANGLIA PLASTICS (INDIA), based in Calcutta, is establishing a project in Madhya Pradesh for the annual manufacture of 6,000 tonnes of phthalic anhydride, one of the basic raw materials used in the production of phthalate plasticisers. A suitable site is being selected and preliminary proposals for collaboration and knowhow for the project have been submitted to government. The company's application for industrial licence, for setting up a plant in MP for producing PVA and PVA fibres, is pending with government. Meanwhile, trial production has commenced at the films and foils project. Encouraging results have been obtained from the test and trials of some glass fibre reinforced plastic products developed by the company. A considerable market is expected for these products. With the continuing impact of the enhanced incidence of import duty on cellulose acetate flakes, the principal raw material for CAMG, and with only a 'negligible' contribution of PVC to profitability, the economic viability of the company's compounding unit remains uncertain. Besides, production difficulties in the plants of two major producers of PVC resins have made scarce this principal material for PVC compound. During the 15-month period ended June last, EAP experienced a sharp contraction of margins, owing to labour agitation, rise in costs, and drop in selling prices following large imports of DOP allowed by government. On representation by the industry, further imports have been stopped, but the imported materials still flood the market and offer 'unequal competition' to the indigenous products.

COCHIN REFINERIES showed contraction of margins during the ninth year ended August last. The crude oil price was increased by the supplier, Total International, in stages from mid-November 1970, by 40.2 cents per barrel. Government of India allowed certain increases in prices of different products which compensated the company only up to 47 per cent of the increase in crude price and that too only from May 28, 1971. The cost of crude purchased during the year was Rs 24.72 crores against Rs 21.77 crores; manufacturing and other expenses accounted for Rs 4.08 crores against Rs 3.34 crores; and non-recoverable excise duty Rs 7.70 crores against Rs 7.39 crores. The profit, therefore, fell considerably during 1970-71. The Board has recommended a dividend of 16 per cent, wholly exempt from tax, against last year's 18.6 per cent which was partly exempt from tax. Completion of the company's expansion has been delayed by three months and is now expected to be over by the end of December next. The LPG project is in progress. The two-mile road, built by the company to facilitate movement of heavy equipment to the refinery site, was taken over by Kerala government in May 1971. The compensation of Rs 5 lakhs is yet to be received by the company. 98,360 tonnes of products worth Rs 1.41 crores were exported.

SKOL BREWERIES, a new company promoted by Shaw Wallace and Company, is setting up a brewery near Bombay with an annual capacity of 50,000 hectolitres. The company has obtained a licence from SKOL International, Bermuda, for use of the word 'SKOL' as part of the corporate title. SICOM is actively supporting the venture, by giving a term loan, and subscribing to the share capital. Construction of factory buildings started in December 1971. Fabrication and installation of the plant and erection of the factory buildings have been entrusted to Larsen and Toubro. The brewery is expected to go into production in April or May 1973. Shaw Wallace will take up marketing of the product throughout the country. Estimated to cost Rs 2.15 crores, the project is to be financed with share capital (Rs 1.20 crores) and loan (Rs 95 lakhs). The issued and subscribed capital, of Rs 33.25 lakhs, is held by the promoter. Equity shares, of the value of Rs 1.25 lakhs, have been reserved for allotment to New India Assurance, and of Rs 15 lakhs, to SICOM — both for cash at par. The public is being offered for subscription at par, under a Prospectus, 30,000 9.5 per cent redeemable cumulative preference shares of Rs 100 each and 4.05 lakh equity shares of Rs 10 each. The subscription list will open on February 28 and close on March 9 or earlier, but not before March 3. The Board is headed by A W B Hayward who is also chairman and managing director of Shaw Wallace. The other directors are: S P Acharya, Arun Chakravarty, V C Vaidya, Ramesh Pai, R A Shah and P G Daftary. According to Hayward, the plant design is such as to enable stepping up capacity fourfold at an additional cost of only Rs 60-70 lakhs. The plant is expected to go into full production in about 14 months of its commissioning, when the turnover would be about Rs 2 crores and gross profit around Rs 50 lakhs. The company may be able to pay a maiden equity dividend of 7-7.5 per cent for 1974.

PORRITTS AND SPENCER (ASIA) commenced manufacturing operations during the year ended September last, and executed to the satisfaction of customers initial trial orders for small quantities. Work on installation of the needle loom is under way and trial production of needle felts is scheduled to commence in April-May next. This will enable the company to increase its product-range to include more sophisticated types of papermakers' felts. The company is also conducting experiments in the manufacture of calender felts for the textile industry; commercial production thereof is expected to commence in March-April this year. Turnover during the year was Rs 12 lakhs, and

the outcome was a net loss of Rs 18 lakhs after depreciation of Rs 6 lakhs. The directors expect that the operations will reach the break-even point within the next few months and that the company would be able to close the current year without any further losses.

INDIAN EXPLOSIVES is seeking government approval for setting up a second explosives manufacturing unit in one of the backward areas of Central or Western India. According to the chairman, D G Owen, the new project would involve minimal capital expenditure and foreign exchange and no fresh payment for knowhow or foreign collaboration. Meanwhile, the company has established the project for the manufacture of detonating fuse at the Gomia works. This project was designed and engineered in India. Preliminary work for the setting up of a nitro-cellulose plant, with a capacity of 1,000 tonnes per annum, has also been completed. This project should ultimately save the country nearly a crore of rupees in foreign exchange by reducing imports of the material which is used in the paints, artificial leather, and explosives industries. The company's fertiliser division experienced a number of industrial relations disputes last year, owing to which target output could not be achieved and profits were less than forecast. A three-year settlement has been reached on major points of demands made by the employees at Kanpur.

FROM OUR CORRESPONDENTS

KERALA

Fragile Facade of Unity

M S

EVER since the Achutha Menon ministry first came into existence in November 1969, the anti-Marxist forces in the state have displayed an impressive capacity to sink their persistent mutual differences in the interests of preventing the CPM from making a fresh bid for power. So long as the Congress party extended support to the ruling coalition while remaining outside it, the partners of the CPI-led front found it comparatively easy to settle their problems among themselves without allowing the opposition led by the CPM to take advantage of them. However, after, the Congress party joined the Achutha Menon ministry in September 1971, its numerical preponderance has led to fears among partners of the CPI-led front of being dominated by it. Further, its inept handling of the crucial Home portfolio has contributed to the growth of fresh divisions among the leading constituents of the ruling alliance. The only major anti-CPM political and communal force outside the ruling coalition, the Kerala Congress, has also become steadily more hostile after the Congress party's induction into the ministry. Thus, in less than five months after the Congress became the major ruling party in the state, and on the eve of the crucial budget session of the state assembly, the facade of unity presented by the Achutha Menon ministry looks rather fragile.

In the last few months a number of cases of police lathi charge and firing as well as instances of inter-party violence have occurred in several parts of the state. The political consequences of these would, in any case, have been damaging for the ruling parties, particularly the Congress party which holds the Home portfolio. However, the year-end orgy of communal violence at Tellicherry, quite unprecedented in Kerala, is likely to have far graver implications for the stability of the ruling alliance.

Communal Forces Strengthened

The communal riots at Tellicherry, in which the minority community faced the brunt of the attack, seems to have been the outcome of the strengthening and consolidation of Hindu communal forces as a reaction to the series of political concessions won by the Muslim League over the last few years. Though the ruling parties, including the Muslim League, have held the CPM responsible for them in an obviously political move, the riots have undoubtedly affected the relations between the Congress and the Muslim League besides accentuating the internal tensions within both these parties.

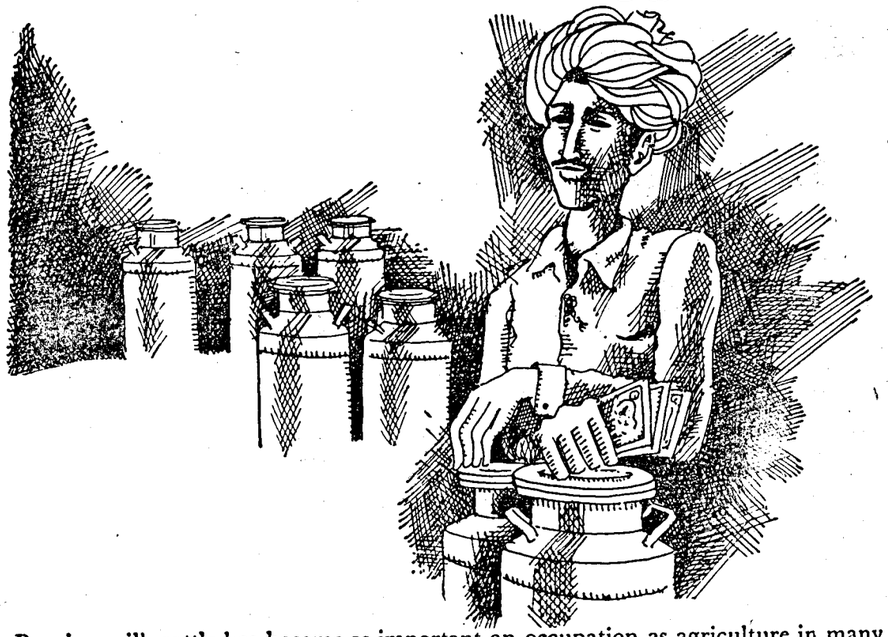
The Congress party's ambivalance to the Muslim League over the years has soured relations between the two. During the 1960 election to the state assembly the Congress had entered into an alliance with the League on the ground of its being a 'democratic party' but as soon as the time came for the formation of the ministry it dropped the League. In 1969, however, the Congress thought fit to extend support to the Achutha Menon ministry in which the Muslim League was an active partner. Two years later, the party even decided to share power with the Muslim League and sought to explain away its contradictory approach by declaring that the League in Kerala was not communal as it was in the rest of the country. Despite this, however, the Congress party's accommodation in the ministry was not easy. The Muslim League which held the crucial Home portfolio agreed to surrender it only when a breakdown of the negotiations seemed imminent. Even after the portfolio was eventually handed over, doubts persisted within the party whether it was an altogether wise move, considering the extensive patronage and influence that it commanded.

In the subsequent period, the tension between the two parties manifested itself over various issues. During the strike by teachers and students in October-November 1969, the Muslim League was the only ruling party which sided with the managements of private colleges and opposed the impostion of any government control over them. Later, charges were made that the Congress was attempting to cut into the influence of the Muslim League in the Malappuram district, a League stronghold. This led to failure to reach an agreement between the two parties for the Malappuram municipal poll during May 1971, in which the Congress suffered reverses. Recently, on account of the deteriorating relations between the rank and file of the two parties, the ruling parties even decided, as a gesture of conciliation, to hold one of the meetings of the Liaison Committee at Malappuram. This meeting, however, did not come off.

The Tellicherry riots, coming as they did on top of these existing differences between the two parties cannot but affect their relations further. The sense of insecurity which will grow among the Muslim masses is likely to have the ultimate consequence of driving the leadership of these two parties apart. Muslim League circles may hold, perhaps with some justification, that the riots could have been prevented from assuming serious dimensions if only the party had continued to hold the Home

Milk co-operatives as an instrument for creating new jobs

Survey of two villages in Kaira* traces half their income to milk



Rearing milk cattle has become as important an occupation as agriculture in many villages in Kaira. In villages with milk co-ops, slightly over half the income is from milk, as against 20% in villages without milk co-ops.

Apart from raising village incomes, milk co-ops have created more jobs in villages, in collection centres, in cattle feed plants and in animal husbandry services.

With mechanisation of farming displacing people from agriculture, it is imperative that villages should offer alternative opportunities for employment. The traditional farmer is under-employed in any case. Dairying offers a part solution to both problems.

*This survey was conducted by the Department of Economics, Sardar Patel University, Vallabh Vidyanagar. The computed income included remittances from relatives in Africa.

Amul has shown the way.

ASP/ABF/SP-11

portfolio. While the leaders of the Muslim League, in their anxiety not to endanger the stability of the ministry, echo the statements of their colleagues in the other ruling parties holding the riots to be political rather than communal, the rank and file of the party suffered from no such inhibition and have openly declared that they were essentially communal. *Chandrika*, the Muslim League organ, recently levelled the allegation that some Congress workers arrested for complicity in the riots were later set free obviously under political pressure. The cleavage between the rank and file and the leadership of the Muslim League is likely to intensify rather than diminish in the future. This process is likely to be strengthened on account of the recent failure of the Congress party in West Bengal to have a poll alliance with the Muslim League after having been in power with that party after the 1971 poll. As and when the Muslim League decides ultimately to break with the ruling parties, the momentous development is sure to plunge the state again into political uncertainty.

Cleavage in Congress

A similar cleavage between the leadership and other sections of the party is visible in the Congress also. The youth wing of the party which has always been critical of the party joining the Achutha Menon ministry has become more vocal of late. In October-November last year the youth wing took a vigorous part in the struggle of the teachers and students, much to the discomfiture of the party leadership. In the subsequent period, the youth wing has sharply criticised the failures of the Congress Home Minister's police policy, particularly in connection with the recent incidents in the Quilon and Trivandrum districts, and the subsequent strike by policemen in Quilon. Following the Tellicherry communal riots the youth wing of the party even demanded the resignation of the Congress Home Minister. It has held that the principle of the party that the police should not interfere in the struggle of workers and students and that it should deal vigorously with the activities of communal forces has been violated under the regime of the Congress Home Minister. These internal tensions within the Congress party may become sharper in course of time.

The leadership of the Congress has also been conradicting itself over the issue of the communal riots, thus damaging its image before the people. The statement of the ruling parties in the first week of January describing the riots as political contradicted the earlier description of them as communal by the Chief Minister. Again, the Union Deputy Home Minister's statement after his visit describing the riots as communal contradicted the view taken by the ruling parties.

CPI's Dilemma

A similar tension has been present in the relationship of the Congress party with the CPI from the beginning. At the time of the Congress party's entry into the Achutha Menon ministry, the CPI had shown distinct signs of uneasiness even while appearing to welcome the move as a progressive step and in the interest of the stability of the ministry. In order to protect the basic interests of the party from the hegemonic tendencies of the Congress, the CPI had gone to the extent of inducting two of its stalwarts into the ministry at the time of its expansion. This, however, has not prevented the party from subsequently voicing complaints against the 'big-brother' attitude of the Congress.

Another aspect which will affect the CPI's relationship with the Congress is its compulsion to prove its *bona fides* as a genuinely leftist party even while pursuing the line of extending support to the progressive policies of the Congress. The recent controversy over the move to nationalise foreign plantations in the state is a case in point. The move which was initiated by the CPI before the induction of the Congress party into the ministry was recently vetoed by the Centre. This has led to sharp exchanges between the leaders of the CPI and the Congress party. The time-bound programme subsequently adopted by the ruling parties has soft-pedalled the issue, thus marking a victory for the Congress party over the CPI.

Besides, the election manifesto recently adopted by the Congress party for the assembly poll in the various states has made it clear that the party wants to be voted to power with single party majorities for the implementation of progressive policies. This goes much against the exhortation of the CPI to the progressive elements in the Congress to seek the support of left and democratic forces outside its fold. However, the Lok Sabha poll of March 1971, had already obviated the necessity for the Congress to depend on other leftist forces. If this trend is strengthened in the forthcoming poll, as seems likely, the CPI would lose credibility further and would run the risk of losing also its positions of power in Kerala.

In the context of the weakening of the fabric of unity of the ruling parties, the tactics of the CPM, the main opposition party in the state, assumes considerable significance. The communal riots of Tellicherry has provided the CPM a gratuitous opportunity to exploit the tensions within the ruling parties. It is precisely their awareness of this prospect that made the ruling parties issue a statement holding the CPM rather than the BJS responsible for the riots. The CPM has, in turn, accused the ruling parties of broadening their anti-Marxist alliance by shielding the BJS. However, the CPM is unlikely to let go this opportunity to drive a wedge between the Muslim League and the other ruling parties. As soon as the riots broke out, the CPM had taken the initiative in informing the government and had also used its considerable organisational resources to meet the situation in the affected areas. Besides, there has been a growing feeling in the party that it had committed a tactical error in failing to prevent the alienation of the Muslim League during the former CPM-led administration and that if the party is to succeed against the ruling parties it must somehow win the Muslim League over. This consideration is likely to weigh a good deal with the party in chalking out its future tactics.

Agitational Plans

Another factor favourable to the CPM is the role of the Kerala Congress. Following the Congress party's entry into the Achutha Menon ministry this party, which earlier during the Lok Sabha poll in March 1971 had joined hands with the CPI-led Front to isolate the CPM, has become sharply critical of the ruling alliance. In the last no confidence vote in the state assembly it had joined hands with the CPM instead of remaining neutral as it had done on an earlier occasion. Besides deciding to back the opposition candidate in the recent Trichur by-election, the Kerala Congress is also chalking out some agitational plans in the near future, chiefly on the issue of greater autonomy for states. Thus the current activities of this party would constitute a major headache for the ruling alliance.

The CPM's main effort during recent times has been to sharpen its agitational edge. The last major agitational campaign of the party was in October-November 1971 when it took an active part in the struggle of teachers and students. The ruling parties could contain the agitation only after it had become a positive threat to the stability of

the ministry. The recent district and state level conferences of the party as a prelude to the forthcoming party congress have testified to its comparatively undiminished mass base. Prior to the state level conference the party had organised an impressive procession and a public meeting at Quilon, a district in which the mass base of the party had so far been negligible.

The party has at hand a number of excellent issues for mounting fresh agitational campaigns. Issues such as police, tax burdens, rising prices and land reforms would of course continue to be in the CPM's armoury. After the Tellicherry riots the CPM would also seek to expose the central Congress leadership for allowing an incompetent Congress Home Minister in the state to continue in power. It has also been highlighting the current controversy over the issue of communal reservation in government services, with a view to exploiting it for agitational purposes. On the agricultural front, there have already been some clashes between CPM-led agricultural workers and landlords in the Kuttanad area. The CPM would seek to link up this issue with its standing demand for more vigorous implementation of land reforms, distribution of surplus and forest lands, etc, for a broad-based agrarian movement. The party has already announced some agitations on the opening day of the next state assembly session on February 18 demanding, among other things, the nationalisation of forest lands by the end of February 1972.

When the state assembly meets for the budget session a much more worried Achutha Menon ministry will face the opposition benches. Violent activities have shown a sharp upward tendency as evidenced by the recent inter-party clashes in the Trichur constituency during a by-election to the state assembly. The temporary pacification of the non-ministerial faction of the PSP, which has been on the warpath demanding the repudiation of the ministerial faction, is likely to be poor compensation for the fresh tensions that have been set up within the ruling alliance, centring round the Congress party's handling of the Home portfolio. Considering the present alignment of political forces in the state a mid-term poll is unlikely to alter the balance greatly in favour of the ruling parties. On the other hand, the increasing hostility of the Kerala Congress and the growing uneasiness of the Muslim League may well cut into the present strength of the ruling parties. However, though the term of the present state assembly would end only in September 1975, a fresh poll cannot be ruled out in case the Congress does as well in the coming state assembly elections as it did in the last Lok Sabha election.

BIHAR

The Same Old Congress

THOUGH the Congress — the undivided one — ruled supreme in Bihar right from 1947 to 1967, the party had kept losing ground from one election to another. Starting with 240 seats in a House of 330 members after the general elections of 1952, the Congress won 210 seats in 1957 with the total number of members in the Assembly reduced to 318, which remains its size today. In the general elections of 1962, the Congress went down to 185 and five years later it was slashed to 128. On a closer analysis of the election figures one would find that with every increase of about one lakh in the electorate, the Congress lost roughly one seat to the other parties; for 15 years the Socialists and Communists gained most of what the Congress lost.

With an addition of 26 lakh voters in the elections of 1962, the Congress lost 25 seats and in 1967, with a further rise of 56 lakhs in the electorate, the party was ousted from 57 more seats. And so it would seem that it was not just the anti-Congress wave that was responsible for the Congress debacle in Bihar in 1967. There was something deeper. The party was losing its hold on the hearts and minds of the electorate all through. Even in the mid-term elections of 1969, when the anti-Congress wave had almost subsided, the same trend continued; the Congress lost another ten seats.

If one were to go by the same calculation, the Congress would lose another 32 or so seats with the addition of about 32 lakh new voters in 1972, cutting the party's strength from 118 in 1969 to a mere 86. Stretching our hypothesis a little further, if the undivided Congress were fighting the 1972 elections in only 258 constituencies, as the new Congress is now doing, its strength would have been reduced to even less than 75 in the 318-member House, a frightful prospect for a party which had ruled unchallenged for two decades.

But that Congress is no more. In its place there are now two Congresses and the Congress of Indira Gandhi claims a totally new image, and so let us assume that the theory of the downhill slide no longer holds good for the new party. But then how new is the new Congress, at least here in Bihar? Of course, there is no end to the new Congress's grandiose and much-publicised resolve to ring out the old and ring in the new but in this state at least all this resolve has so far gone by the board. For days before the party released the list of its candidates for the forthcoming elections, the whole state was agog with rumours that the axe would fall on the corrupt former Ministers and defectors who had jumped on the bandwagon. Nothing of the sort happened. The entire old bunch of former Ministers, including Ramlakhan Singh Yadav who stands indicted by the Aiyar Commission for corruption and misuse of power, and all the arch-defectors were given Congress tickets, in utter repudiation of the pompous proclamations made so recently by the high priests of the party. The selectors had as usual succumbed to caste, individual and group pressures. Half a dozen leaders of the Bihar Congress, their eyes riveted on the chief ministership had threatened and bargained to see that their nominees got the party tickets. Whether it was just failure of nerves or fear of jeopardising the party's prospects at the polls, the Prime Minister gave in at the last moment.

Virtual Revolt

The selection of party candidate, apart from further tarnishing the party's image, sparked a virtual revolt in the rank and file in several districts. Open resentment was expressed by prominent Congress leaders of Gaya and Saran and several frustrated aspirants threw their hats into the ring to oppose the official candidates, either as nominees of the Congress(O) or as Independents. Dwarika Nath Tewary, MP, and member of the Congress Working Committee, wrote to the Prime Minister expressing his anxiety over grant of tickets to "reactionary and opportunistic elements" and his surprise over the dropping of such unblemished stalwarts like Jaglal Chaudhary. A Secretary of the Gaya District Congress Committee charged that one Union Minister had got tickets for his son and two close relatives and another Central Minister had wangled nominations for his brother and other relatives. The president of the Gaya DCC, Sukhdeo Prasad Verma, MP, declined to make any public comment but was understood to have written to the AICC and the BPCC asking to be relieved of his post because he was unhappy over the wrong selection of candidates.

Meanwhile, even the Yadav faction of the Congress, led by Ramlakhan Singh Yadav, was bitter on the ground that it had not been given its due and that Union Foreign Trade Minister L N Mishra had manoeuvred to get far more tickets for his men than was right. The stage was all set for a replay of the 1967 drama which had proved so costly for the Congress in Bihar.

To add to the bitterness over the way party tickets had been distributed, there was widespread resentment over the adjustment with the CPI and the PSP in 60 seats. In the face of stiff opposition from within the party, the High Command had "given away on a platter" 49 seats to the CPI, including the key labour constituencies of Jamshedpur East and Jamshedpur West. So also most of the major towns of Bihar, including Patna West, and the strategic constituencies on the Bihar-Nepal border. In a sharply-worded memorandum to the Congress High Command, the leaders of the Singhbhum district complained that to give away the key labour constituencies to the CPI was "an act grossly against the interest of the Congress and of the country".

The alliance, whatever the *raison d'etre* for it, did not seem to be working out well, either. In at least four constituencies, candidates of the Congress and the CPI are pitted against one another. Trying to rationalise it, Lalit Narayan Mishra told newsmen in Patna that after talks with the CPI leaders it had been agreed that they would retire all extra candidates except four "where both the Congress and the CPI would fight in a a spirit of friendship, guarding the interest of each other." That the "friendly bouts" are not going to remain very friendly is obvious from the attitudes and postures of the rank and file of both the parties. While the frustrated Congress leaders of the constituencies in which adjustments have been made with CPI have no love lost for the CPI, the latter would clearly be far from happy if the Congress succeeded in getting an absolute majority — an unlikely proposition — for in that case its own importance would be greatly whittled down.

As for the PSP, which has been given 11 constituencies, it is hardly a party any more. It is the small remnant of the former PSP which revolted against the party's decision to merge with the SSP to form the Socialist Party and continued to call itself the Bihar PSP. It had only three legislators in the dissolved House and though it has been given 11 constituencies in the electoral adjustment, it would be a surprise if it can maintain even its former strength of three members.

Though several parties have been claiming that they would emerge with absolute majority, this is the first time when no party, not even the new Congress, is even making a bid for all the 318 seats. The number of seats being contested by the different parties is: Congress 258; Congress(O) 200; Socialist Party 261; CPI 53; CPM 52; Swatantra 52; Jan Sangh 271; PSP 11; Shoshit Dal 38; BKD 20; Muslim League 13; SUC 14; RSPI 20. Besides, the Hul Jharkhand and the Jharkhand Party of India are contesting a sizeable number of seats in Chotanagpur and Santhal Parganas. The total number of candidates this time is 1,983 as against 2,154 in the mid-term elections of 1969. The number of parties contesting the elections has also gone down from 23 in 1969 to 14 this time.

The new Congress is banking on its resources, which, according to some, would be greater than that of all the other parties put together. But even more than this, the Congress is banking on the charisma of Indira Gandhi. While it is hazardous to make poll predictions, specially in a state where sheer muscle power has become an almost inseparable part of the electoral process, it seems more likely that the state would repeat the old drama again. Perhaps Bihar has still not had enough of the hotchpotch.

BANGALORE

A Man for All Seasons

IN normal times, Governors, as constitional heads of government, do not attract much attention. But during President's rule, they get more than their share of limelight. The Dharma Vira regime, which started in October 1969 with a bang ended, so to speak in a whimper in January 1972. To be fair to Dharma Vira, one can say he proved to be a man for all seasons. When he took over, the Congress(O) Ministry was firmly in the saddle although the growing schism between the two factions of the erstwhile Congress caused mild tremors in the Vidhana Soudha.

The budget session in 1971 saw the fall of the Veerendra Patil Ministry when there was a mass exodus of Congress(O) MLAs to the other side, after the landslide victory of Congress(R) in the mid-term elections to the Lok Sabha. Although, by the count of heads, Congress(R) enjoyed a majority, the chief of the party, Devaraj Urs, did not like the idea of forming a government on the strength of defectors. The imposition of President's rule thus became inevitable. On Dharma Vira fell the (thankless?) task of running the state administration during an eventful period of 14 months. It must be said, in fairness to the Governor, that he took it up as a challenge to his administrative capabilities which were never in dispute. True, he did not set the Cauvery on fire. He conceded that President's rule was no substitute for popular government. But he did not rule as a mere caretaker Governor. With characteristic zeal — and a style of his own — Dharma Vira set out to clean the Augean Stables and did succeed, in a small measure, in shaking up the lethargic, easy-going and corruption-ridden bureaucracy.

How did Dhama Vira rule an unwieldly, composite state without any visible sign of strain? The secret of his success was hard work, combined with attention to detail. He kept the officers on their toes, but he listened to them — and at times, let them have the last word. Smaller wonder that, during the Dharma Vira regime, some of the secretaries wielded more power and influence than had Cabinet ministers earlier. The only difference was that this power was not misused for political ends. The corridors of Vidhana Soudha, which overflowed with favour-seekers, wore a deserted look during the Dharma Vira regime. And they were clean, for the same reason.

The five-day week was Dharma Vira's brain child. And it proved a flop. Instead of a one-day week-end hanging heavily on the impecunious government employees, they were faced with a two-day week-end. The Governor was disappointed to find that the "bonus" of an extra holiday did not prod the white-collared fraternity to put in more work. The new system caused more problems to the people in the mofussil who came to the city for official work. Similarly, nothing came

out of his crusade against corruption. The transfer of some corrupt officials from positions of influence did have a therapeutic effect but he overdid it — so it seemed to this writer — in the case of Mysore Iron and Steel. Since the MISL probe is still going on, hasty judgment seems unwarranted but he may have unwittingly exposed a premier public sector company in the state to unfavourable publicity. In an atmosphere surcharged with suspicion, the decision-making process gets delayed and production suffers as a result. Officials at the managerial level tend to get over-cautious and indulge in the familiar practice of passing the buck.

There was more of managerial lapse in the so-called MISL scandal than any large-scale attempt by the officers to defraud the company. The scrap deal, for instance, involved attempts by private agencies to defraud the company by the use of bogus railway receipts. There were also instances of suppliers cheating the company through defective weightment of wagons which implicated railway officials. *Prima facie* cases of corruption by MISL officials could have been dealt with, in an appropriate manner, without tarnishing the image of the company. Observers felt that the Governor's omnibus approach to the MISL affairs did more harm than good to the interests of the state.

Kalinadi Project

In other areas, such as education, the Governor failed to bring about any drastic change, in spite of his best efforts. The affairs of the Bangalore University, of which he was the Chancellor, deteriorated to such an extent that he had to appoint a special one-man committee to go into them. But it is common knowledge that the communal virus has permeated so deeply in all the departments that an inquiry is hardly likely to bring about any change for the better.

One year is too brief a period to measure the impact of the Governor's rule on the economic development of the state. However, given the resources constraint, the Governor expedited major schemes in the industrial, power and irrigation sectors. Inauguration of work on the Kalinadi project can be considered as a milestone since it will avert a power famine in the late seventies. The government's industrial policy too got a new thrust and Dharma Vira's pragmatic approach encouraged many big business houses of Calcutta, Delhi and Bombay to start new ventures or participate in the ventures already sponsored by the government. In all this, the Governor showed a welcome bias in favour of backward regions. Opinions differ on whether the Governor could have refrained from being too friendly with business houses which were under a cloud.

It is a pity that the Governor had to invite frowns from New Delhi for being too outspoken in upholding the state's interests on some aspects of the financial relations between the state and the Centre. While the Centre extracted an apology from Dharma Vira for his indiscretion, the "overdraft" controversy did not show New Delhi in a particularly favourable light. It is a fact that Dharma Vira expressed himself strongly against the Centre's warning that it would stop releasing further instalments of "special accommodation" if the state did not clear the overdraft within a stipulated period, but it would be wrong to suggest that the Governor was preparing for a confrontation with his bosses in New Delhi.

It is little realised that "special accommodation" and "overdraft" are two different things. The state's recourse to overdraft is necessitated by the adverse ways and means position, while the "special accommodation" was devised to redress the injustice meted out to some states by the Fifth Finance Commission. After all, Mysore needed this "special assistance" of Rs 105.5 crores to finance its Fourth Plan of Rs 350 crores. Out of Rs 105.5 crores, Rs 60.5 crores were earmarked for meeting the plan gap and Rs 45 crores were set apart for covering the non-plan gap. According to the mid-term appraisal of the state Plan, the Centre has so far released only Rs 33.56 crores under "special accommodation". With the resources position remaining tight, the state planners were understandably anxious to get the balance released early. It was not as if the state planners were sleeping over the overdraft of about Rs 54 crores. Actually they were working out a *modus vivendi* for the phased release of special accommodation and progressive reduction of overdraft.

It is surprising that while these things were being sorted out, somebody up in New Delhi jumped the gun, making things difficult for the Governor and provoking him into using strong language. It must, however, be said in fairness to the Centre that it has always been helpful to Mysore in considering its needs, particularly during President's rule. But those with long memories still remember the "ultimatum" that was served on Mysore to force the government's hands on the Cauvery waters issue. A federal arrangement works smoothly if states and the Centre observe well-accepted norms. At that time it suited the ruling party at the Centre to use the leverage of aid to browbeat a Government of a different complexion. Why then, the critics ask, should one get hot under the collar if an irate Governor pays back in the same coin?

All this is now history. Mohanlal Sukhadia, who has stepped into the shoes of Dharma Vira, is an astute politician who knows the working of New Delhi's mind. He is better placed than Dharma Vira to plead Mysore's case before Indira Gandhi. Besides, he will be handing over the responsibility of the administration to the popular government which will be ushered in, in a few weeks' time.

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HONG KONG

Turning Asia Upside Down

T J S George

WHEN America's political machine coughs, it appears Asia catches a cold. The timing of President Nixon's historic China visit and even of his disclosure of the secret eight-point plan for peace in Indochina make excellent election sense at home. But the repercussions of these moves have been cataclysmic for Nixon's harried allies in Asia while it remains debatable whether the cause of peace in Asia has been advanced at all.

The general reaction in Asia to the US-China detente is one of approval; the idea of ostracising China had been seen at best as quixotic by all but those Asian leaders whose continuance in power depended on American patronage. But it is Nixon's methodology and the extent of his willingness to please his new-found friends in Peking which have made some of America's staunchest allies in this region painfully nervous.

Japan of course is the most important element here — not only because Japan is among the most directly affected by Nixon's new policies but also because Japan's reactions to the emerging situation may have a profound impact on the region as a whole. It has been pointed out, for example, that cut off by the US and threatened by China, Japan may feel constrained to go nuclear. This would mean the restoration of Japan's militarism — a prospect which cannot hold any good for anybody.

Having faced both internal opposition and regional suspicion in its pursuit of policies to suit America's Asian strategy, the Japanese government was mortified to find that Nixon would announce so major a policy decision as the China visit without even informing, leave alone consulting, it. And this was only one "shocku"; there were others in the form of the squeeze on Japanese exports to the US and pressure on the Yen.

Nixon's disdain for the faithful in Tokyo is not merely a humiliation to them. It also is a source of fear for it indicates the possibility of the American administration downgrading the importance of its alliance with Japan in the light of its new ties with China. The shrewd Chinese have almost been demanding this as a price for their friendship as Prime Minister Chou En-lai's attacks on Japanese militarism for the benefit of American journalists show.

China wants Japan cut to size. And there are widespread fears among Japanese government circles that the US, too, would like to see Japan's "overpresence" in Asia reduced. This, according to the Japanese, points to the possibility of a tacit understanding emerging during the Nixon visit to China to the detriment of Japan.

Against this background, Soviet attempts to strike a deal with Japan assume the proportions of an intricate international power game. Soviet Foreign Minister Andrei Gromyko's visit to Tokyo last month was a reasonable success. The Soviets have two attractive baits to offer the Japanese — a peace treaty and opportunity to exploit the resources of Siberia. The latter will ensure at least 50 million tons of crude oil for 20 years for Japan's insatiable industries. Anxious to reduce its present dependence on Middle East oil, Japan is not likely to turn down the chance lightly.

The rub is the Kuriles. If the Russians hand them back to the Japanese, it is a safe bet that the Japanese will gladly walk into the Soviet parlour. But Gromyko made no commitment. Perhaps Moscow wants to hold on to the disputed islands as the last trump card. Perhaps it hopes that the economic attractions of Siberia will be weighty enough for the Japanese to welcome an all-embracing treaty with the Soviet Union with or without the Kuriles being settled.

While Soviet motivations for an alliance with Japan are clear, Japan will not find it an easy tight-rope to walk. In their present state of mind, the Japanese attach primary importance to China both as an immediate outlet for their products and as a long-term source of essential raw materials. The Japanese may be expected to revise their priorities — theoretically at any rate — only in case they turn from being "economic animals" to militarists.

In sum, therefore, the Nixon initiative over China has raised the spectre of big-power jockeying for power in what is perhaps the most sensitive area in Asia. It also has raised the possibility of forcing Japan into the one frame of mind which is sure to spell disaster. Neither consequence holds much promise for Asian peace.

At the other end of the political spectrum, Cambodia offers a typical example of the consequences of Nixonian politics. The Vietnamisation of Cambodia in the wake of Prince Sihanouk's ouster was one of the more cynical extensions of the very cynical war the US has been waging in Indochina for years. Now when Nixon is being forced by domestic pressure to quit Vietnam, he is leaving the Cambodians high and dry.

The disclosure of the eight-point peace plan was accompanied by American explanations that the communists were being intransigent in demanding that American abandon its allies in Saigon. After what America has done to Taiwan and Japan, it did seem strange that it should profess faithfulness to, of all people, President Nguyen Van Thieu whose one-man election last October was an insult to the world even by South Vietnamese standards. Evidently the American position was not the result of a sudden attack of principles, but rather a continuation of its plans to settle the Indochina war on Washington's terms.

Those who were so anxious to save Thieu's skin did not have a word to console their Cambodian proteges. The Lon Nol government in Phnom Penh had seen the writing on the wall as soon as Nixon announced his China trip — and had been making desperate moves to save itself. It is now known that Phnom Penh sent unofficial feelers to its hated adversary, North Vietnam, for a settlement. A minister subsequently denied that the government had made any direct approach, but he did not deny reports that contacts had been made with a third country which had offered to act as an intermediary. Not that any such denial would have made any difference, for the third country itself is known to be the Soviet Union, which still maintains a diplomatic mission in Phnom Penh.

According to these reports, the Lon Nol government is willing to let the North Vietnamese and other communists use supply routes and sanctuaries in eastern Cambodia in return for an assurance that Prince Sihanouk will not again be brought to power in Phnom Penh. This means going back to precisely the situation that obtained in the days of Sihanouk; it was to end this very situation that the ouster of Sihanouk was masterminded by Deputy Premier Sirik Matak, an acknowledged friend of America. So much for the brutalisation of what was once the gentlest people in Indochina and the

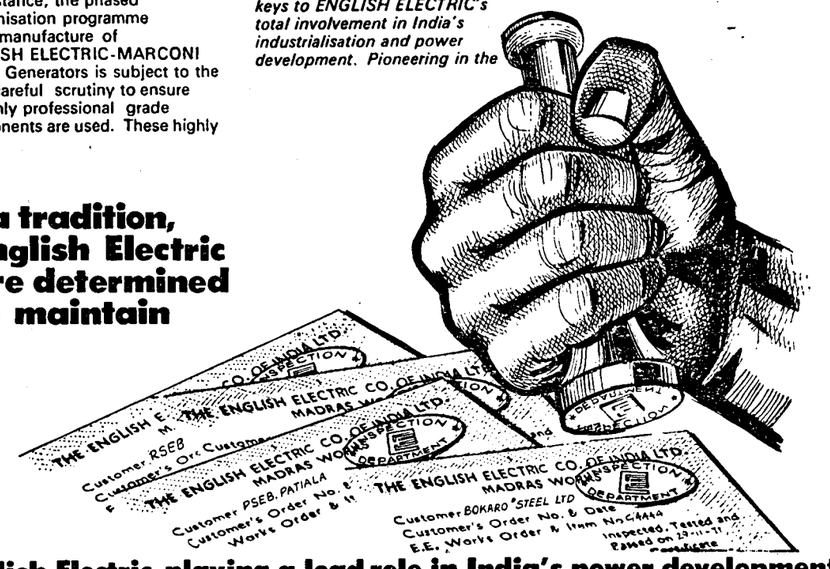
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wrecking of a country which had adroitly managed to stay out of a cruel war that raged all around it for more than a decade.

Elsewhere in Asia the same kind of unrest is spreading as a result of American policies. The Thais are coping with a steadily increasing rebellion. Malaysia and Singapore are extending the hands of friendship to China not knowing whether it is the right thing to do Indonesia is getting more and more deeply entrenched as a state managed by the "Berkeley Mafia". The Philippines sees a near-complete breakdown of law and order. Everybody looks for neutralisation and guarantees knowing that none will come. But Richard Nixon will come back to the White House and that, one should imagine, is good enough justification for turning Asia upside down.

SINGAPORE

Where Duty Lies

S M Ali

IN his despatch ("Patriots Overnight" January 8, pp 62-3), Harish Chandola has expressed one genuine fear which may well be shared by many students of Bangladesh affairs. It is, in Chandola's own words, "Is Bangladesh being created in the image of Pakistan? Must knowledge of handling Pakistan affairs be borrowed to create a new administration?"

Answers in the Negative

These are pertinent questions which must of course be answered in the negative. The revolution in Bangladesh will certainly remain incomplete if the people and the government of the new state cannot create an administration which is not only responsive to the popular wishes and democratic aspirations of the 75 million people but is also capable of facing up to the new realities in the country's political and economic fields. Having sacrificed millions of lives, the people of Bangladesh cannot afford to turn their country into a playground of bureaucratic red tapism, gross mismanagement and downright inefficiency, all of which have been the hallmarks of the successive administrations in what was once known as East Pakistan.

Unfortunately, Chandola poses this pertinent question in an entirely wrong context. As your readers may well remember, he is sceptical, if not totally distrustful, of the *bona fides* of a fairly large number of Bengali officials of the Pakistan Foreign Service who defected to Bangladesh and is, therefore, extremely doubtful about their usefulness to the new administration. Judging by his article, his distrust of these defectors whom he loosely — and unjustly — describes as "turncoats" and "opportunists" centres on his impression of a few officials of the Bangladesh regime he recently met in Singapore, including K K Panni, the former Pakistani ambassador to the Philippines and now the roving envoy of Bangladesh, and Shamsul Alam and Abdul Qayuum, a former director in the Pakistan Foreign Office and the first secretary in the Pakistan High Commission in Kuala Lumpur, respectively.

It is not my purpose here to defend these individuals. We should be more concerned with the issues than with the personalities. But at least two of these officials, mentioned by Chandola, have not wasted their time since they defected to Bangladesh. Panni has travelled extensively in this area and has played an extremely useful role in softening the attitudes of several South-East Asian countries and Australia towards Bangladesh. Since he enjoyed no diplomatic privileges and was obliged to rely on the friendly assistance of the Indian missions, he faced enormous problems in the discharge of his duties. But he succeeded in making his case for recognition, especially in such difficult spots as Jakarta and Canberra, with considerable success. While I concede that Alam might have been a little overzealous, at least outwardly, in helping Mian Ziauddin, Yahya Khan's special envoy, whom he (Alam) accompanied on a tour of South-East Asia, he made his move to join Bangladesh in full consultation with the Bangladesh authorities, despite difficulties in communication. Once he made the move, he proved extremely useful to the Bangladesh cause, especially in publicising the plot of the local Pakistani mission to send the grain ships, diverted here from Chittagong, to Karachi. Abdul Qayuum and two other Bengali diplomats in Kuala Lumpur might have left their jobs earlier and joined the battle for Bangladesh. One reliable report said that the Government of Bangladesh in exile had advised them to stay on in their jobs. This may well be true. In any case, the Bangladesh authorities in Dacca will look into this carefully, without, I hope, accepting Chandola's hasty conclusion.

Since Chandola has accused Qayuum of making some strong anti-Indian statements last April, I may as well take the liberty of disclosing here that Chandola had made the mistake of calling on Qayuum in his office at the Pakistani High Commission in Kuala Lumpur when the Bengali official had made the outrageous remarks about India and repeated Islamabad's silly claim about the restoration of law and order in Bangladesh. Well, what did my distinguished Indian journalist friend expect Qayuum to say within the four walls of a Pakistani mission, or in a room which was possibly bugged?

At this stage, we cannot say how the Government of Bangladesh will treat these defectors. If there is no question of rewarding them, there is certainly no possibility of their being deprived of their jobs. What is needed is a programme for their political reorientation which should be followed by their rehabilitation in the new set-up. There may be a few bad cases, a lot of good ones and perhaps also a few difficult ones which would call for the attention of Mujibur Rahman. But what must be avoided is a witch-hunt, based on a quickly formulated generalised approach.

The civil servants of Bangladesh who, till recently, worked for the Government of Pakistan are just as good or as bad as their counterparts in India. But I am not prepared to damn them as a legacy of Pakistan. From my personal knowledge, I know that many of them had taken grave personal risks in helping Mujibur Rahman with materials from official files to support the Six-Point Programme. While they lent their full support to Mujib's civil disobedience movement in early March last year, some of them were brave enough to take a stand against the army when Yahya unleashed his reign of terror in Bangladesh. Compared to fighters in the Mukti Bahini, their sacrifice was perhaps insignificant. But, as individuals, they proved their *bona fides* and demonstrated their allegiance to the cause of an independent Bangladesh.

[More despatches from correspondents follow the Review of Management.]



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REVIEW OF MANAGEMENT

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Whatever Happened to the 'Priorities'?

IN discussions of recent trends in commercial bank advances one major element has been generally missing — banks' advances to the so-called priority sectors. In the first year or so after the nationalisation of the 14 largest banks, a great deal used to be heard about the spurt in bank credit to these sectors. And not without some justification, for, between July 1969 and June 1970, the public sector banks' advances to the 'priority' sectors did go up by some Rs 325 crores, accounting for over 55 per cent of the increase in these banks' total advances during the period. However, in the following 12 months, July 1970-June 1971, the growth in 'priority' advances shrank to Rs 134 crores which came to less than 30 per cent of the increase in the public sector banks' aggregate advances during the period. Later figures are not readily available, but the pace of growth is likely to have, if anything, flagged further.

The Reserve Bank has recently been at pains to emphasise that if advances for food procurement are excluded then the expansion of bank credit in recent months does not compare unfavourably with that in the corresponding period a year ago. One can go further and hazard a guess that if advances to agriculture, small-scale industry and the other 'priority' sectors are excluded, the growth of commercial bank lending to organised industry would compare very favourably indeed with that of a year ago. Actually, faced with the unexpected (and, at least partly, unearned) boom in deposits and the consequent slump in credit-deposit ratios all round, banks have been chasing their industrial borrowers with funds.

It is precisely this context of overall abundance of resources with the banks which makes the slackening of growth of advances to the 'priority' sectors particularly noteworthy. Unlike in the immediate post-nationalisation period, in the last year and more, the growth of deposits has been so satisfactory that banks simply have not faced the problem of allocating credit between their traditional borrowers and the 'priority' sectors. After meeting all the demands of organised industry and trade, banks have had enough loanable funds at their disposal to have expanded their advances to the 'priority' sectors much more rapidly than they have done. Their ability to do so should also be deemed to have improved significantly, given the very large number of bank branches opened outside the cities and towns.

If the constraint was not resources, what was it? Was it demand? It may be argued that given the low growth of output in large-scale industry, there is unlikely to have been a sharp expansion of the small industries sector. The argument may be extended to retail trade and small business, though here it is of some relevance that the recent trends of advances of indigenous bankers, such as the Multani Shroffs, whose borrowers come largely from this sector, hardly suggest a lack of demand for credit. In any case what about advances to agriculture? Here at least the lack of demand argument would not apply. And yet (to rely, once again, on rather dated statistics) the public sector banks' direct lending to agriculture expanded by only Rs 44 crores during July 1970-June 1971, which was less than 10 per cent of the aggregate increase in their advances during this period, compared to an expansion of Rs 115 crores, accounting for 20 per cent of the increases in advances, during July 1969-June 1970.

There is a qualitative aspect to this slackening of growth of bank credit to agriculture (and other 'priority' sectors) which is at least as important as the quantitative aspect. It is well known that in their initial response to what was admittedly political pressure to show impressive achievements in financing of agriculture banks had picked on the larger, more prosperous and easier-to-finance farmers; they had also concentrated, understandably, on the states and regions with the relatively better banking networks. This was justified on the ground that once banks gained experience in what was for most of them a new activity and once their newly opened branches in the hitherto underbanked regions got going, bank credit would begin to reach the smaller cultivators and also the relatively backward states and areas. What was being suggested in effect was that the, say, second — and the third and the fourth — Rs 150 crores of bank credit to agriculture would be qualitatively more significant than the first Rs 150 crores. But it is precisely the second Rs 150 crores which is being so painfully slow in coming.

The authors of the paper on long-range business planning in banks, published in this issue of the Review of Management, maintain that the objectives of nationalisation can be achieved "within the framework of our concept of banking business by considering alternative opportunities available in the hitherto neglected markets of agriculture, small-scale industry, transport operators, the self-employed and the technician-entrepreneurs". Few banks, it would seem from what has been said above, have much use for these "alternative opportunities".

Formal Planning Systems

Their Place in the Framework of Planning and Control

J C Camillus

Formal corporate planning systems have proliferated in the past decade in the more industrially developed countries.

However, despite the nearly universal acceptance of the importance of corporate planning there is unfortunately a lack of a common understanding of:

(a) what constitutes planning;

(b) to what extent planning can and need be formalised; and,

(c) where it fits in the broad framework of planning and control activities.

This note is an attempt to throw some light on these issues.

THE etymology, usages, and innumerable definitions of the word 'planning' are available to anyone who has access to even a mediocre library. With considerable justification Dimock[1] asserts that "it is doubtful whether any word in modern usage is more misunderstood than the word 'planning'". Turning for clarification to Webster's Third New International Dictionary, one finds 'planning' defined with commendable clarity and brevity as "the establishment of goals, policies and procedures for a social or economic unit". This definition is quite consistent with those of Fayol,[2] Koontz and O'Donnell,[3] and Scott.[4] Scott's definition is as follows:

> Planning is an analytical process which involves an assessment of the future, the determination of desired objectives in the context of that future, the development of alternative courses of action to achieve such objectives, and the selection of a course (or courses) of action from among these alternatives.

This definition can be hardly improved upon, and is accepted without modification as being wholly in keeping with the intended usage of the term in this note.

Concept of Formality

The word 'formal' as defined by Webster's dictionary means, "based on forms and rules — of or following a prescribed form". The term is important because it limits one's attention to activities which are amenable to manipulation and design. The exclusion of informal systems from the direct attention of systems designers is that, as Anthony puts it:

> ... one does not design an informal system. And since the basic reason for our interest in planning and control systems is to design better ones, we shall tend to think of formal systems — those whose structure is visible and whose operation has explicit authorisation.[5]

Unfortunately the term 'formal', with its connotations of precision and uniformity, is by no means universally applicable to planning systems now in existence. Real-life planning systems encompass widely varying activities and differ considerably in design.

Webster defines a system as a "complex unit formed of many diverse parts subject to a common plan or serving a common purpose". This definition leaves one with considerable flexibility when defining what comprises a system. Emery recognises this flexibility when he observes that "the boundaries of a system are essentially arbitrary".[6] The 'essentially arbitrary' nature of systems is perhaps the primary cause of the considerable confusion that envelops the concept of what constitutes a 'formal planning system'.

Formal Planning Activities in Anthony's Framework

Anthony's framework for the analysis of planning and control provides a common basis of understanding from which one can proceed to define a Formal Planning System. This framework can be criticised with respect to the applicability of its neat, mutually exclusive categories to the complex vagueness of real-life planning and control activities. Nevertheless, the unique usefulness of this scheme for classifying planning and control activities at a broad theoretical level is universally accepted. Very briefly, Anthony breaks down the general subject area of planning and control into three categories, resisting the "natural temptation to use as the two main divisions: (1) planning (roughly, deciding what to do) and (2) control (roughly, assuring that desired results are obtained)".[7] These categories are:

(1) *"Strategic Planning* [which] is the process of deciding on objectives of the organisation, on changes in these objectives, on the resources used to attain these objectives, and on the policies that are to govern the acquisition, use and disposition of these resources".[8]

(2) *"Management Control* [which] is the process by which managers assure that these resources are obtained and used effectively and efficiently in the accomplishment of the organisation objectives".[9]

(3) *"Operational Control* [which] is the process of assuring that specific tasks are carried out effectively and efficiently".[10]

With this understanding of Anthony's framework, one can now attempt to identify the formal planning activities that are included in the broad spectrum of planning and control.

First consider strategic planning. Anthony's description of strategic planning is almost a paraphrase of Webster's definition of planning. According to Anthony, strategic planning is "essentially irregular — the strategic planning process follows no prescribed format or time-table".[11] If one accepts Anthony's definition of the nature of strategic planning, then it follows that strategic planning activities cannot be included in any formal system. However, it can be argued that certain strategic planning activities are indeed amenable to routines and schedules. Several arguments[12] can be put forward to substantiate this claim:

(i) Anthony himself admits that activities such as capital budgeting can be formalised.[13] In addition to capital budgeting, other elements of the strategic planning process are clearly amenable to a certain amount of structure and regularity. For instance, diversification and acquisition analyses can be carried out on a routine basis. In fact, there are, at this time, a fair number of formal organisational units entrusted with the sole purpose of selecting and nurturing new products and ideas. Examples of such formal units are the 'New Enterprises Division' of Coca-Cola (US), and similar units at Monsanto, 3M and other companies.

(ii) The formal planning system can

be designed to trigger the strategic planning process at regular intervals. For instance, suggestions for new business and new products may come up from middle management at regular intervals.

(iii) The management control system and the formal planning system produce informational inputs needed for effective strategic planning. Since such information is provided according to time-tables and schedules, the strategic planning process itself has to adopt a certain degree of regularity.

(iv) The output of the strategic planning process needs to be communicated to the rest of the organisation by top management. Most commonly the formal planning system is used as a vehicle for such communication. This action necessarily introduces an element of regularity into the strategic planning process.

(v) The formal planning system needs a statement of objectives from top management if the process of planning is to be meaningful. This creates pressures on top management to decide on strategies and policies on a regular basis.

(vi) It is possible to argue that Anthony is wrong and that the entire strategic planning process is not only amenable to formalisation, but that it is also desirable that it be formalised. It is not very unusual to find top executives involving themselves in brain-storming sessions on a regular basis.

It cannot be denied that strategic planning is quite often triggered off by unexpected crises in the environment or within the business itself. In the light of the preceding arguments, however, there is a very strong case for rejecting Anthony's contention that strategic planning activities cannot be formalised.

Coming to management control, Anthony describes the process as 'rhythmic; it follows a definite pattern and time-table'.[14] The 'formality' (or rather the lack thereof) of the process, therefore, does not pose a problem as it does in the case of strategic planning. All management control activities cannot, however, be included in a definition of a planning system. This is because "the planning and control process is in fact a continuum",[15] according to Anthony, with strategic planning primarily comprising planning activities, operational control being almost purely control, and management control being a mix of both planning and control activities. Since only a segment of management control activities merit the description of planning,

Exhibit I: Formal Planning Systems: Their Place in the Framework of Planning and Control

Classification of Management Control Activities

	← Management Control →		
Objectives	Goal Congruence and Motivation		
Activities:	1 Formalisation of long-range objectives and long-range planning	2 Short-range planning and budgeting	3 Measurement and evaluation
	← Primarily planning activities →		← Primarily Control activities →

this distinct segment needs to be defined. A classification of management control activities which suggests itself is:

(i) formalisation of long-range objectives and long-range planning;

(ii) short-term planning and budgeting;

(iii) measurement and evaluation.[16]

Linking these three classes of management control activities is what may be termed the 'system objectives' of:

(i) congruence between corporate and individual goals;

(ii) motivation of individual personnel.

Given this classification of management control activities, those activities that can be described as 'planning' fall in the first two categories only. Control activities are grouped in the second and third categories. The classification of management control activities is diagrammed in Exhibit I.

The classification recommends itself because it is in keeping with the nature of 'the planning and control continuum' described earlier. Category 1 activities interact with strategic planning and are primarily 'planning' activities, while Category 3 activities which are closer to operational control are chiefly 'control' activities. The classification also suggests that budgeting forms the interface between planning and control activities. This assertion finds ample corroboration in literature. Ewing speaks of budgeting as a 'potent tool of planning'[17] and a little later adds that "budgeting has an unmatched value as a tool of control".[18] The implication is clear: budgeting is both a planning and a control activity. Stedry, too, in his prize-winning doctoral dissertation states: "First, a budget may serve as a plan ... Second, a budget may serve as a control ..."[19]

It is therefore reasonable to say that the shift of orientation from planning to control occurs in the budgeting process which is included in Category 2 of the suggested classification of management control activities. The planning activities in the management control process-formalisation — of long-range objectives, long-range planning, short-range planning, and to a certain extent budgeting — are universally accepted as desirable, if not essential, components of a formal planning system. Both pragmatists and academic purists find an area of agreement in this regard.

Definitions of Formal Planning Systems

Formal Planning activities have been identified as existing within the 'management control' and 'strategic planning' processes. It remains now, for one to select those 'formal planning' activities which one wishes to include in a 'system'.

A formal planning system which includes just the planning activities found in the management control process is clearly beyond criticism on the grounds that the activities are not formal or that they are not planning-oriented. The utility of such a definition, however, merits examination.

If one is engaged in a research project focusing on the interface between the planning activities and the control activities in the 'management control' process, then such a definition is perhaps beyond criticism. However, in a practical corporate situation, considerable doubts arise about the usefulness of such a definition.

Consider the 'formalisation of long-range objectives' which is one of the planning activities within the management control process. It is difficult to

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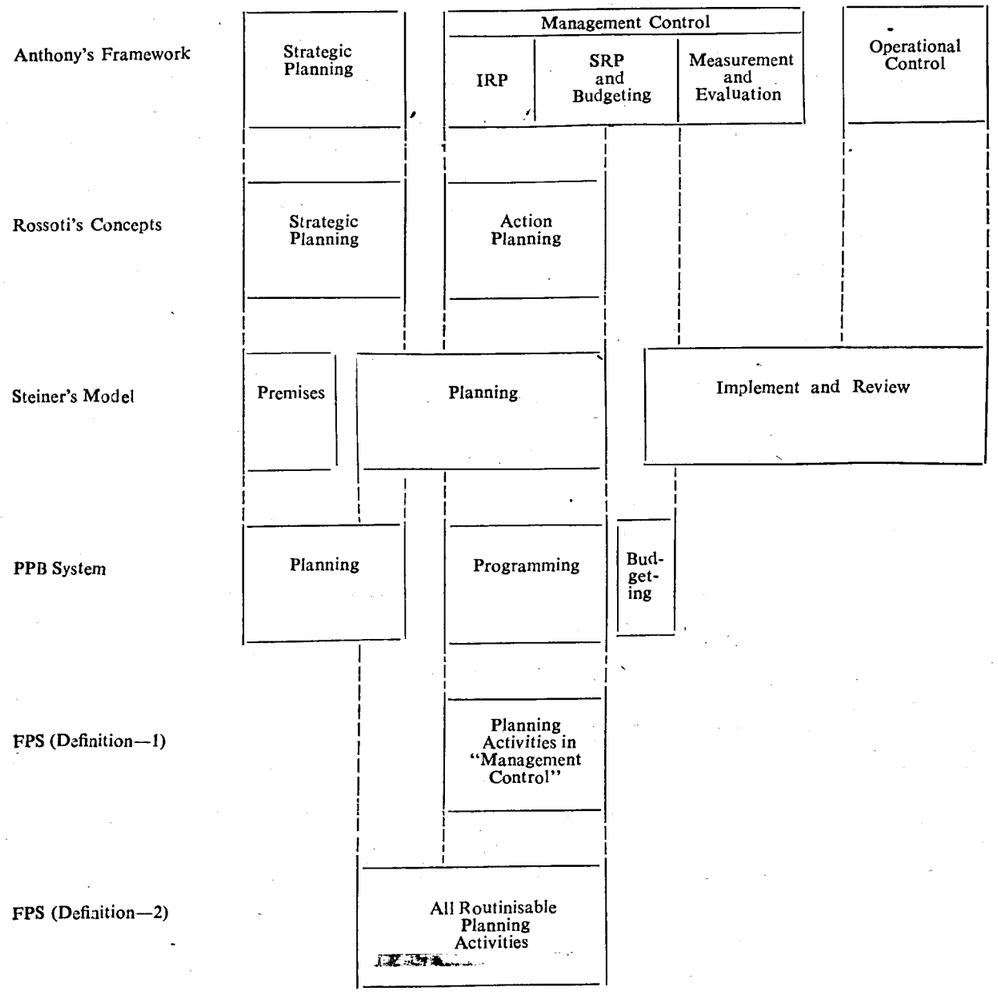
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EXHIBIT II: FORMAL PLANNING SYSTEMS: THEIR PLACE IN THE FRAMEWORK OF PLANNING AND CONTROL
Anthony's Framework, Rossotti's Concepts, Steiner's Model, PPBS, and FPS — The Relationships



visualise this activity being executed effectively without top management providing corporate direction, objectives, and guidelines. An optimal formulation of objectives demands that 'strategic planning' be carried out before it is attempted. An effective formal planning system would, therefore, endeavour to ensure that the necessary strategic analysis and introspection be carried out prior to the formulation of action programmes. Consequently, it can be argued that an effective planning system should embrace as much of the strategic planning process as is amenable to structure and formalisation. Thus, the definition of a 'results-oriented' formal planning system would tend to include all planning activities that can be formalised, and such a definition would incorporate strategic planning activities, in addition to the planning activities falling within the management control process.

The definition of a formal planning system, therefore, needs to be based on the purpose for which the definition is attempted. From the point of view of carrying out research, limited definitions are extremely useful. If, on the other hand, one is interested in making the planning process within a corporation more effective and efficient, then perhaps a broader definition of a formal planning system is desirable.

OTHER APPROACHES TO DEFINING PLANNING AND CONTROL ACTIVITIES

Anthony's framework of planning and control finds several analogies in planning literature. This is to be expected as Anthony's framework very probably influenced the thinking of the individuals who developed these other approaches. It may be both interesting and useful to identify some of these other approaches and to relate them to Anthony's framework and also to possible definitions of formal planning systems.

Rossotti,[20] in his highly illuminating

article, 'Two Concepts of Long Range Planning', speaks of two approaches to planning. The first he calls "'action planning', because the prime focus is improved internal co-ordination, communication, and motivation toward overall organisation goals. The most frequent form of this activity is the five-year plan, which is compiled in a cycle similar to the more traditional budgeting".

The second approach he describes as "'planning for strategic changes' because its direct focus is on increasing the organisation's ability to adjust to changes occurring outside itself. It often takes the form of a high-level special purpose staff extension of the top management".

Rossotti's detailed description of these two concepts of planning indicate an identity between his "planning for strategic changes" and Anthony's "strategic planning". His concept of "action planning" is analogous to the definition of formal planning systems identified earlier, which includes only the planning activities within Anthony's 'management control' process.

Steiner[21] proposes a 'conceptual model for business planning' and compares it in detail to Anthony's framework. Steiner classifies the 'structure and process of planning' into:

(1) premises;
(2) planning;
(3) implementation and review.

What Steiner calls 'premises', *viz*, the "fundamental organisational socio-economic purposes, values of top management and studies of the environment", are implicitly prerequisites to Anthony's 'strategic planning'.

Steiner breaks what he calls 'planning' into further categories which he terms:

(1) strategic planning and plans;
(2) medium-range programming and plans;
(3) short-range planning and plans.

He finds Anthony's 'strategic planning' identical to his definition of the term. Anthony's 'management control', however, leaves out "a small part" of Steiner's "short-range planning and plans". This small part actually corresponds to elements of Anthony's 'operational control'. The same break-up occurs with respect to Steiner's 'implement and review' process and Anthony's 'management control'.[22]

The "Planning Programming and Budgeting System",[23] introduced by the Federal Government of the United States, is a formalised system of planning, which though oriented towards non-profit organisations, provides one with both insights into and analogies with business planning.[24] Unfortunately, despite extensive writings on the subject, no definitive description of the terms 'planning', 'programming' and 'budgeting' applying specifically to their usage in this context are available. General definitions of planning such as Dror's: "planning is the process of preparing a set of decisions for action in the future, directed at achieving goals by capital means",[25] are employed. Novick is perhaps the most helpful:

> Planning is the production of the range of meaningful potentials for selection of courses of action through a systematic consideration of alternatives.
> Programming is the more specific determination of the manpower, material and facility needs.[26]

On the basis of Novick's description it is seen that 'planning' in PPBS corresponds to Anthony's 'strategic planning'. The description of 'programming' indicates that it falls entirely within the definition of 'management control'.

The relationships between Anthony's framework, Rossoti's concepts, Steiner's model, the Planning Programming and Budgeting System, and two definitions of the formal planning system are illustrated in Exhibit 2.

Notes

1 M E Dimock, "The Executive in Action", New York: Harper, 1945, p 123.

2 H Fayol, "General and Industrial Management", London: Pitman, 1949.

3 Harold Koontz and Cyril O'Donnell, "Principles of Management", Fourth Edition, New York: McGraw-Hill, 1968.

4 Brian W Scott, "Some Aspects of Long-Range Planning in American Corporations with Special Attention to Strategic Planning", (unpublished doctoral dissertation, Graduate School of Business Administration, Harvard University, 1963).

5 R N Anthony, "Planning and Control: A Framework for Analysis", Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1965.

6 James C Emery, "Organisational Planning and Control Systems", London: Macmillan, 1969, p 4.

7 Anthony, *op cit*, p 10.

8 *Ibid*, p 24.

9 *Ibid*, p 27

10 *Ibid*, p 69.

11 *Ibid*, pp 38-39.

12 Several of these arguments were originally proposed by S K Bhattacharyya of the Indian Institute of Management, Ahmedabad.

13 Anthony, *op cit*, p 40.

14 Anthony, *op cit*, p 37.

15 Anthony, *op cit*, p 31.

16 This classification owes its genesis to a very great degree to ideas developed in discussions with R A Howell of the Harvard Business School.

17 David W Ewing, "The Practice of Planning", New York, Harper and Row, 1968, p 100.

18 *Ibid*, p 105.

19 Andrew C Stedry, "Budget Control and Cost Behaviour", Englewood Cliffs NJ: Prentice-Hall, 1960, p 3.

20 Charles O Rossotti, 'Two Concepts of Long-Range Planning', Boston: Management Consulting Group, Boston Safe Deposit and Trust Company.

21 George A Steiner, "Top Management Planning"; New York: Columbia University Graduate School of Business and the Macmillan Company, 1969; pp 31-44.

22 Exhibit 2 which illustrates the correspondence between various planning models and the definitions of formal planning systems, ignores this overlap between 'operational control' and Steiner's description of 'short-range planning and plans'. This omission is intended to enhance the clarity of the diagram and is perhaps justified since Steiner himself states that only 'a small part' of this process is not covered by Anthony's definition of the 'management control' process.

23 See: *Bulletin 66-3*, October 12, 1965, and *Supplement to Bulletin 66-3*, February 21, 1966, issued by the United States Bureau of the Budget. Also of interest is Virginia Held's 'PPBS Comes to Washington' in "Planning Programming Budgeting: A Systems Approach to Management", Fremont J Lyden and Ernest C Miller, editors; Chicago: Markham, 1968.

24 See: John C Camillus, Regina E Herzlinger and Delmer J Rogers, 'PPBS — Lesson in Retrospect' in "Formal Planning Systems — 1969". Vancil, Aguilar, Howell and McFarlan, editors; Boston: Harvard University Graduate School of Business Administration, 1969.

25 Yehezkel Dror, 'The Planning Process: A Facet Design' in *International Review of Administrative Sciences*, Volume XXIX, Number 1, 1963, pp 44-58.

26 D Novick, editor, "Programme Budgeting", Cambridge, Mass: Harvard University Press, 1965; p 91.

Concept of Planning: A Case Study

V L Mote
B G Shah

In this paper we cite a case study of "planning" at the Ahmedabad Branch of the Praja Bank. The study underlines how creative aspects of the planning process can suffer if planning is reduced to a mechanistic target-setting and budgeting exercise with or without formal use of environmental data.

It is widely recognised that long range planning is the responsibility of top management. This is because the key notes of long range planning are creativity and judgment. It is maintained, therefore, that the role of formal analysis in long range planning is at best marginal. The intangible ingredients—creativity and judgment—do not lend themselves to any formal analysis.

We entirely agree with the first assertion. But we have reservations in accepting the second proposition. We maintain, on the contrary, that a use of formal analytical framework is helpful in a judicious exercise of judgment and in pinpointing areas of creative thinking. The case study of Praja Bank supports this statement.

I

THE word 'planning' is so commonly used that it might seem presumptuous to attempt an explanation of its meaning. We believe, however, that it is important to give the word its precise meaning in order to achieve better results in a major area of top management responsibility, that of planning.

Planning is a process of choice of the course of action in the future. In this sense, it involves the following steps:

(i) listing of alternative courses of action from which a choice is to be made;
(ii) measuring results that might flow from following each of the listed courses of action; and
(iii) deciding a criterion for choice of the course of action.

In a situation where there is only one course of action possible, there is neither an economic nor a planning problem. Planning becomes necessary when there are alternative ways of achieving an objective. In such a case there is the problem: which of these alternatives should be chosen? A choice can be made only after the outcomes of each of the listed alternatives are measured. But such measurement poses problems for two reasons: (1) the outcomes depend upon the events in the future, and hence are uncertain; and (2) not all outcomes lend themselves easily to measurement in terms of a common unit.

Assuming that the problem of measurement is solved, there is still the problem of deciding upon the criterion of choosing the course of action from amongst the various alternatives available. This criterion could be profit maximisation, or risk minimisation, or liquidity maximisation, or employment, or any other such criterion, depending upon the objective sought to be achieved.

A distinction is commonly made between a short term and a long range plan. The essence of the distinction lies in the fact that more constraints are operative in the short run than in the long run. Otherwise, the two are interrelated in the sense that the long range plan sets the direction and pace of the short term plans. By the same token, the short term plans must contribute to the implementation of the long range plan.

Often, planning is equated with target-setting and budgeting. The budget is the end-product of a planning process. It merely translates the chosen course of action in terms of monetary values. Budgeting can tend to be mechanistic unless it is viewed in the total context of the planning process.

II

In this paper, we cite a case study of "planning" at the Ahmedabad Branch of the Praja Bank.[1] This study underlines how creative aspects of the planning process can suffer if planning is reduced to mechanistic target-setting and budgeting exercise with or without formal use of environmental data.

Praja Bank was a large nationalised bank. It operated a country-wide network of 250 branches, and had deposits exceeding Rs 300 crores at the end of December 1970. For administrative purposes, its branches were grouped into six regions and each region was further subdivided into several districts. Branches within each region were placed in charge of a regional manager. He was assisted by several district managers who supervised branches located in their respective districts or groups of districts comprising a region.

The Ahmedabad Branch of the Praja Bank was opened in 1945 in a central part of the city. Sen was the manager of the branch, and the district manager of the Ahmedabad district. The Ahmedabad Branch was surrounded by thickly populated lower and middle income residential localities, small and big retail shops and multi-storeyed commercial offices. The branch faced competition from 13 branches of the large nationalised banks and 7 branches of well-established co-operative banks, all situated within a radius of half a furlong. Its deposits exceeded Rs 353 lakhs at the end of December 1970. The deposits of the branch grew at the compound rate of 6 per cent during the decade 1961-70. Of the total deposits, 74 per cent constituted savings and fixed deposits and 26 per cent were current deposits. A survey of ownership of branch deposits[2] showed that 43 per cent were personal and professional deposits, 13 per cent were business deposits, 37 per cent were deposits from trade and financial institutions, and 7 per cent constituted deposits from others (government and others).

Of the total advances of Rs 660 lakhs at the end of December 1970, 94 per cent was to large textile mills and wholesale merchants, and 6 per cent to priority sectors. Of the total advances, 1.8 per cent was lent to agriculture, 2 per cent to small-scale industries, 1.5 per cent to retail trade, and 0.7 per cent to other priority sector borrowers (transport operators, education, etc).

The authors interviewed Sen to understand the nature and extent of planning at the Ahmedabad Branch of the Praja Bank. Sen told the authors

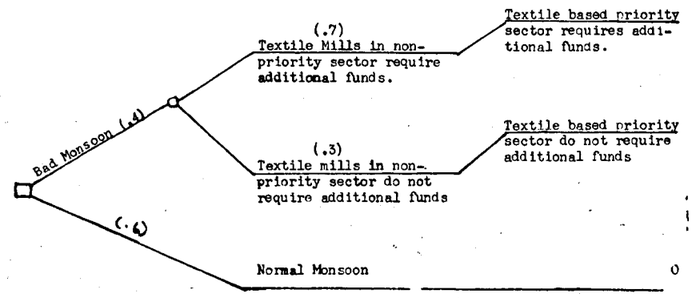
that his bank had not introduced any formal planning system. But he pointed out that targets for deposits and loans to priority sectors were fixed for the branch in consultation with the head office. He also referred to the recent emphasis of the head office on increasing credit flow to the priority sectors and projecting the image of the Praja Bank as a "small man's bank". Planning at the branch level had, therefore, to be directed towards strengthening that image.

The authors asked Sen how he went about planning for deposit mobilisation. Sen replied by referring to the twin efforts that he made to increase deposits. First, the development officer of the branch systematically drew up a call list of potential depositors comprising trustees of charitable and personal trusts, office-bearers of local bodies, associations, and educational institutions and other leading personalities having contacts with individuals and organisations, who could be potential depositors. His major selling points to this group of depositors were: Praja Bank was a large bank and should have its share of deposits and that it offered competitive interest rate and other services. Sen pointed out that his development officer believed that more deposits could be mobilised if the bank could extend borrowing facilities to the trustees or organisations with which the trustees were associated. The second effort was by way of organising special deposit campaigns involving house-to-house canvassing for deposits by the staff of the branch. Small gifts were usually distributed to attract depositors during such campaigns. Sen also told the authors that there was not much scope for deposit mobilisation by his branch for three reasons:

(i) the branch had been long established and had therefore intensively exploited the deposit potential;
(ii) there was severe competition from the 20 branches of the other banks; and
(iii) non-banking companies offered more attractive rates of interest on deposits.

With regard to advances, Sen planned to hold the advances to non-priority sector at the current level (Rs 620 lakhs). However, he planned to advance an additional amount of Rs 32 lakhs to priority sectors. Amongst the priority sectors, Sen planned to concentrate more on the retail trade and

DIAGRAM 1



transport operators for which he thought he had the locational advantage. He pointed to the numerous retail shops surrounding his branch and the city's main taxi and rickshaw stand in the vicinity of his office. He also planned to increase his advances to small manufacturers. He saw no difficulty in achieving the target for small manufacturers, who he thought, were aware of the various facilities that the Praja Bank was offering to them. These were widely advertised. Sen planned a 56 per cent increase in advances to exports. These advances depended largely on the growth in the export trade of Gujarat State Export Corporation. During 1971-75 Sen planned some increase in advances to consumers and self-employed persons. He did not plan to add any new account in the agricultural sector, as he thought that he was not advantageously located for making loans to agriculture (Appendix 2).

Asked whether any special services were required by retailers, Sen replied that they needed credit facilities and quick payment and collection of cheques. To a similar question with regard to small manufacturers, he said that the branch needs to recruit one chartered accountant for a thorough financial appraisal. Sen did not plan to provide any tehnical or other advisory services. He would rather assess the technical and managerial competence of the borrowers more carefully and thereby make it unnecessary to provide such consultancy services to the small-scale manufacturers as a matter of routine.

Appendices 1 and 2 give Sen's "Plan" for deposits and advances for the period 1971-75. In arriving at these numbers, Sen relied upon the past performance of the branch and his colleagues' assessment of the potential for deposits and advances in the city. Sen's assessment of the potential was based on his personal knowledge of the markets, and some environmental data collected by him and his development officer.

III

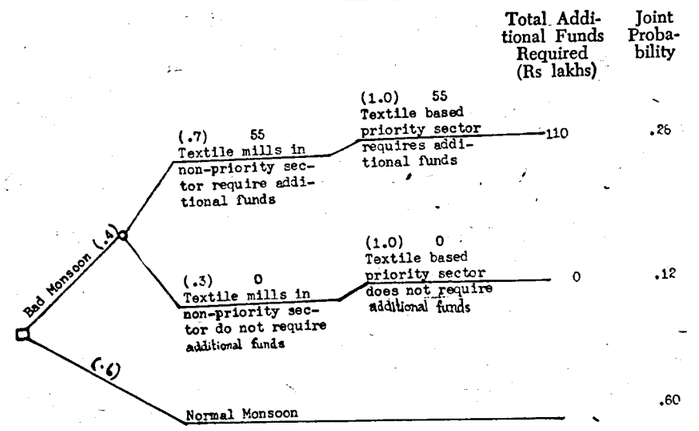
We would now like to appraise Sen's approach to planning. This should hopefully give us some useful insights into the planning process.

Sen had pointed out that Praja Bank had not adopted any formal system of planning and that it sought to achieve what planning could by setting long-term targets in respect of the branch's major activities. To this extent, he was equating planning with targeting.

Can we characterise Sen's exercise as planning? It could be said that Sen had an objective and that he also took into account some environmental data and his branch's past performance in drawing his five-year 'plan'. We, however, do not think that what Sen did could be called planning. At best, he made a linear projection based on the branch's past growth rate, except for a larger allocation of funds for advances to priority sectors. It might be asked whether what Sen did could be called planning if he had made more systematic analysis of markets for deposits and advances. We do not think so. It is not so much a question of the degree of thoroughness in assessment of the markets. The more basic deficiency in Sen's approach is the total absence of creative search for and formal evaluation of the numerous feasible alternatives that environment offered him.

Take, for instance, his credit 'plan' where he has allocated larger funds to priority sector.[3] Now, priority sector comprises the sub-sectors of : agriculture, small-scale industry, exports, transport operators, and self-employed. How much should Sen lend to which

DIAGRAM 2



sub-sector? He could make a further choice from the many alternatives that were available to him within each of the above sub-sectors. For example, should he lend to small or middle or large farmers or to all of these? If so, in what proportions? Should he lend to farmers with irrigated lands or also to those who did not have irrigation facility? Should he finance food crops or cash crops? If cash crops, should he finance groundnuts or onions or cotton or tobacco or all? So also Sen had many choices in the retail trade sector. The retailers vary in their size and type of business. Should he lend to retailers of cloth or of electrical goods, or of pharmaceuticals and drugs, or groceries or mill-gin stores or all? Should he lend to small or middle-sized or large-sized retailers? It needs no argument to state that lending to a cloth retailer is not the same thing as lending to a curios shop, or a book shop, or a pharmaceuticals and drug shop, or a provision store, or dealers in electronics. The risks, service package, information need, turnover, profit margin are all significantly different in these different retail trades.[4] So also he had a variety of alternatives available within sub-sectors of the small manufacturers and exporters. Did Sen consider all these alternatives in deciding upon his credit 'plan'? Our submission is that he had not.

Since many of these alternatives were not formally considered, it is difficult to say how good was the alternative chosen by him. Could there have been an alternative which could have given better results and had a greater chance of success? It is conceivable that a better alternative was available but was not feasible in the short run because of organisational constraints. In this sense, a detailed search for alternatives lends direction to what needs to be done by way of a series of secondary actions to remove these constraints by building a requisite organisation over time. This aspect of planning is missing in Sen's 'plan'. It should be clear now that Sen could not have achieved by targeting what he could have achieved through formal planning.

IV

It is not enough to point out what Sen had not done. It is necessary to indicate how Sen should have planned. Ideally, we would have preferred to draw an alternative five-year plan for Sen. It should be evident, however, that it would be too ambitious to make such an attempt within the ambit of a single paper. We will remain content, therefore, with illustrating the application of planning framework to Sen's credit activity.[5] It is submitted that such an approach would provide enough practical guidance for planning.

The first step in developing a credit plan is to answer the question: what alternatives were available to Sen?[6] Surely, such alternatives are not drawn in the absolute. These must be derived from the concept of one's business which provides a framework for such alternatives. Clearly, Sen was in the business of banking. So we need to explain the concept of banking business. We define it as the business of inducing exchange of currency for liquid and convenient claims on the bank by paying a fair return. Let us examine how this definition of the concept of banking business provides a framework to Sen for conducting a search for alternatives open to him. The uniqueness of his business is that the customers might exchange their claims on the bank (cheques, DDs, TTs, MTs, etc,) for cash without notice or at short notice. It is obligatory on Sen to honour such claims, when made.[7] It is this aspect of banking business that distinguishes it from the business of other financial institutions such as the development banks and non-financial companies. This concept of business limits Sen's choice of the kinds of assets that he could finance. His business requires that bulk of his assets must be quickly convertible into cash without loss. These tests can be met if there is a high degree of certainty that a major portion of his assets will generate adequate cash quickly. Sen had open to him a large number of alternative investment[8] opportunities that would satisfy these tests.

The existing pattern of advances of Sen's branch are given in Appendix 2. Of the total advances of Rs 660 lakhs, 94 per cent were advanced to the non-priority sector, and 6 per cent to the priority sector. Of the total advanced to the non-priority sector, 84 per cent was advanced to cotton textile mills and cloth and mill-gin store merchants. The advances to priority sector were about equally distributed amongst the sub-sectors of agriculture, small-scale industry, and retail trade. Surely, it would be imprudent for Sen to project this pattern of advances into the future in view of the environmental realities requiring increased flow of credit to priority sector. Sen's chances of retaining a large overdraft on head office funds are brighter if he finances the priority sector in a big way. This is a possibility which requires exercise of judgment on the part of Sen. The problems for choice, therefore, are : Should he continue with the existing distribution of his advances between the priority sector and the non-priority sector? Should he change this distribution? If so, by how much and at what pace? Sen can fix the proportion of funds to be lent to the priority and non-priority sectors within a wide range of 0 to 1. Not only has he to make a choice of proportion of the funds to be lent to the priority and non-priority sectors, but he has also to make a choice amongst the various opportunities that are available to him in both the sectors. For example, in the non-priority sector Sen's choices are : Should he continue to lend to the large textile mills or should he advance to middle-sized or sick mills? If so, in what proportions? Should he lend to textiles alone or also to larger engineering or chemical, or electronics units which have grown up in the city

of Ahmedabad? So also in the priority sector, he has to choose from amongst the many alternatives that are available to him for lending funds in the sub-sectors of agriculture, small trade, export, and transport. From amongst these numerous opportunities that the environment offers to him he must decide what is feasible for him to adopt. To illustrate our point, we have given in Appendix 3 some five alternatives from which Sen can choose.

The next step now is to choose one course of action from the list of potential alternatives. We limit our discussion to the following two alternatives (Appendix 3):

Alternative 3: Advance Rs 391 lakhs each in non-priority and priority sectors with concentration in the cotton textile group of industries in both sectors.

Alternative 4: Advance Rs 336 lakhs each in the non-priority and priority sectors with concentration in cotton textile group of industries and hold Rs 110 lakhs in liquid cushion to meet any unexpected demand for funds.

We now address ourselves to the measurement of results of the above alternatives. Before such a measurement is attempted it is necessary to clarify three major issues of measurement. These are.

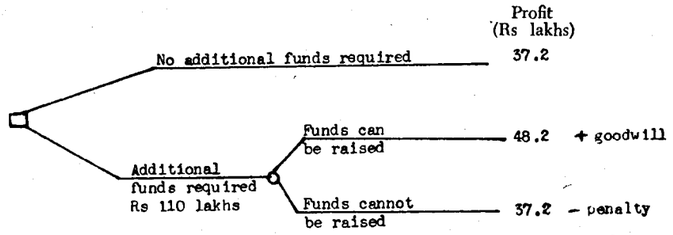
(i) identification of critical events affecting the results,
(ii) unit of measurement, and
(iii) time span over which results are measured.

Both the alternatives involve concentration in cotton textile and allied industries. Therefore, a critical uncertain event that must be built into the evaluation of the alternatives is the possibility of a bad monsoon.[9] A bad monsoon will have two consequences for the cotton textile industry, *viz*:

(i) A poor cotton crop[10] resulting not only in reduced margins because of higher cotton prices, but also necessitating acquisition of larger stocks as a legitimate hedge against price and availability risks.
(ii) A poor off-take of finished stocks because of reduced purchasing power resulting in higher lock up of funds in inventories and book debts.

In case of a bad monsoon[11] the industry gets squeezed in a pincer of reduced contribution and lower cash generation. Clearly, the result would be that not only the industry would have difficulties in honouring its maturing obligations but it would need additional funds. A similar impact will be felt by the industries allied to textiles.

DIAGRAM 3



Profit is arrived as follows:

	No Funds Required and Funds Required but Cannot be Found		Additional Funds Required and Found	
	Total Advances	Income	Total Advances	Income
Income obtained from advances @ 10 per cent p a	782	78.20	892	89.20
Income from other activities (from 1970 income statement of the branch)		4.00		4.00
Total income		82.20		93.20
Total expenses of the bank (as per 1970 income statement adjusted for increased activity)		45.00		45.00
Profit before tax		37.20		48.20

The critical test for the branch in that eventuality is its ability to provide the additional funds needed by the textile-based industries who are its major clients. This will depend upon the magnitude of the funds required, liquidity position of the branch, and its ability to raise funds from head office or the Reserve Bank. So, there is a further uncertainty about Sen's ability to raise additional funds when required. Evaluation of alternatives is simpler if Sen could mobilise the required additional funds. Otherwise we have to measure the consequences of inability to raise the required additional funds. These consequences could be loss of business and profit, mortality of the weaker among the borrowing firms and loss of goodwill. These consequences are difficult to measure in monetary terms and involves lots of judgments which Sen alone can exercise.

With regard to the unit of measurement we have decided to measure the results of the three alternatives in terms of profit. Our reasons for this approach are two: First, it will be profit that will determine the Praja Bank's ability to pay a return to the depositors and shareholders and carry the risks involved in its business. Second, in the long run, all the results are reflected in the profit. Hence, when confronted with situations where all the results cannot be fully translated in monetary terms a way out is to scale these results in terms of monetary value. For example, loss of goodwill can be scaled against the probable loss of profit arising from it.

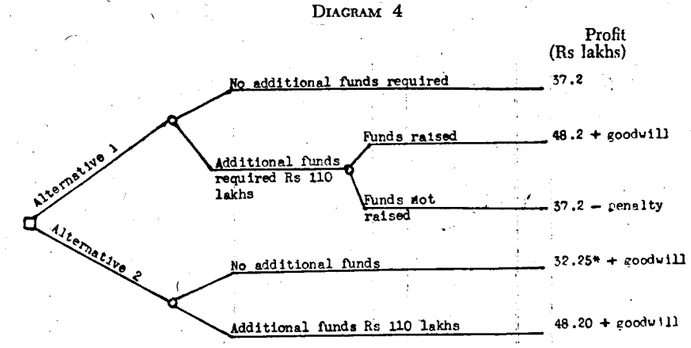
Lastly, the time-span for evaluation should have been ideally co-extensive with the planning period. But such an endeavour would be too involved for our limited objective of illustrating application of planning framework. We will, therefore, remain content with taking one year as the time horizon. This time span, in our view, encompasses the several events that are likely to affect the results and hence does not detract the practical value of the attempt.

Having stated the uncertain events that might affect the outcomes of the alternatives, we now proceed to examine whether the outcomes of the two alternatives would be different and how should these outcomes be compared with each other to make a choice between them.

We begin with measuring results under the third alternative (Appendix 3). Diagram 1 shows the various possibilities for requirement of additional funds under this alternative.

Two more steps are required for measurement of results. These are: (1) computing the magnitude of funds required corresponding to each possibility shown in Diagram 1 and (2) assessing the probability that each of the

DIAGRAM 4



* We are assuming 5½ per cent return on liquidity cushion and thus in this alternative the income is reduced by Rs 4.95 lakhs per annum.

listed event (possibility) will occur. After studying the time-series data on index numbers of agricultural production and rainfall distribution (1950-51 to 1966-67), we assess that the chance of a bad monsoon is 40 per cent.

Given a bad monsoon, there are 70 per cent chances that the client textile mills of Sen's branch will require additional[12] funds to the tune of Rs 55 lakhs. Given further that the textile mills require additional funds it is certain that the textile-based allied borrowers in the priority sector will also require additional funds to the extent of Rs 55 lakhs. There are 30 per cent chances that the textile mill clients may not require additional funds. Given that the textile mills do not require additional funds it is assumed that the textile-based allied borrowers in the priority sector will not require additional funds. The picture of the additional funds required is depicted in Diagram 2.

In Diagram 3 we show the outcome of alternative 3 depending on Sen's ability or inability to raise the required funds. It could be argued that Sen's office is a branch and it could always raise funds by borrowing from head office. It would be very embarrassing to the head office if every major branch were to plan its asset structure under that uncritical assumption. Already Sen has financed more than fifty per cent of advances mainly to non-priority sector through borrowings from head office. The possibility of his being unable to raise funds is therefore built into the analysis.

Let us compare the outcome of alternative 3 with the outcome of alternative 4 under which Sen builds a liquidity cushion of Rs 110 lakhs to meet the possible increase in the demand for funds. We can now compare the outcomes of alternatives 3 and 4 which are presented in Diagram 4.

A study of Diagram 4 shows that the cost attached to alternative 4 is the cost of the liquidity cushion amounting to Rs 4.95 lakhs. On the other hand, this alternative would enable Sen to meet the additional funds requirements of his major client groups and win their goodwill. This, in the long run, would have impact on his business and therefore profits. Under alternative 3 Sen earns an additional amount of Rs 4.95 lakhs by extending his loan position to the full amount of the funds but runs the risk of being unable to meet the additional funds need of the clients in the event of a bad monsoon. This involves the penalty by way of loss of goodwill especially when he plans to be in the textile business.

Which of these two alternatives should he choose? This will be determined by Sen's assessment with regard to: (1) ability to raise funds of the order of Rs 110 lakhs in the event of a bad monsoon, and (2) monetary value of gain or loss in goodwill conditional upon his ability or inability to raise the required funds.

We may conclude this part of the discussion by asking the question: Has the formal approach helped in improving Sen's planning? Two claims can be made. First, it has brought to relief a number of potential alternatives which Sen could have considered in drawing up his credit plan. Often it is said that there are severe organisational constraints in financing the priority sector. However, the alternative of concentrating on textile-based industries in the priority sectors shows how a bank could overcome these constraints in the short run by financing such types of priority activities which build on the existing strengths in the non-priority sector. For example, Sen has strength in financing textiles. Second, the formal approach has not only highlighted the need for judgment and creativity but also shown how these could be built into the planning process.

V

It is widely recognised that long range planning is the responsibility of top management. This is because the key-notes of long range planning are creativity and judgment. It is maintained therefore that the role of formal analysis in long range planning is at best marginal. The intangible ingredients — creativity and judgment — do not lend themselves to any formal analysis.

We entirely agree with the first assertion. But we have reservations in accepting the second proposition. We maintain, on the contrary, that a use of formal analytical framework is helpful in a judicious exercise of judgment and in pinpointing areas of creative thinking. The case study of Praja Bank supports this statement. Had Sen used formal analysis it would have underlined the need for generating creatively the numerous alternatives. Instead, Sen slipped into mechanistic target-setting exercise. Similarly, the use of formal analysis would have identified the areas of assessments in the evaluation of alternatives. Such areas relate to identification of critical events that will affect the results of the listed alternatives, possible effects of loss of goodwill on his profits, possibilities of raising additional funds and the like.

In our view, though lip sympathy is paid to the need for creativity and judgment in planning, in practice more often than not these are missed and planning is reduced to a mechanistic, form-filling, and target-setting effort. In this process we miss the wood for the tree. Unfortunately, the implicit cost of a sub-optimal plan arising from the absence of a diligent and creative search of alternatives is not measured by formal accounting procedures.

We believe that formal analysis as we have carried out above would discipline the management by giving it a systematic framework for search and evaluation of alternatives.

Before concluding, two more observations could be made: Nationalisation has re-defined the role of banks in the country's economic development. Its main objective is to integrate the banks' credit policy with the income distribution and employment objectives of the country's economic policy. This requires a radical change in the composition of banks' assets and will increase business risks. This, however, should not be

APPENDIX 1 : PRAJA BANK, AHMEDABAD BRANCH — A FIVE-YEAR PLAN FOR DEPOSIT MOBILISATION

(Rupees in thousands)

	As of December 31, 1970		1971		1972		1973		1974		1975	
	No of Accounts	Amount (Rs)	No of Accounts	Amount (Rs)	No of Accounts	Amount (Rs)	No of Accounts	Amount (Rs)	No of Accounts	Amount (Rs)	No of Accounts	Amount (Rs)
Current												
Public utility	NA		3	3552	3	3664	3	3776	3	3888	3	4000
Others	NA		36	973	41	1108	46	1243	51	1371	56	1300
Trade												
Other institutions/concerns	NA		615	2909	640	2975	660	3029	680	3080	700	3131
Professional	NA		15	158	19	178	23	198	27	218	31	238
Personal (individual)	NA		278	368	293	379	308	389	318	397	328	403
All others	NA		59	194	64	210	69	226	74	242	79	258
Total	905	6733	1006	8154	1060	8514	1109	8861	1153	9196	1197	9330
Savings												
Individuals	NA		5410	4855	5610	5155	5810	5455	6010	5755	6210	6055
Artisans	NA		0	0	0	0	0	0	0	0	0	0
Agriculturists	NA		236	7	256	8	271	8.7	286	9.4	300	10
Total	5670	4988	5646	4862	5866	5163	6081	5463.7	6296	5764.4	6510	6065
Fixed												
Trade												
Other institutions/concerns	NA		62	2123	68	2260	73	2386	77	2494	80	2571
Personal (individual)	NA		2624	12955	2699	13715	2774	14465	2824	14945	2874	15425
Others	NA		84	2353	88	2433	92	2513	96	2593	100	2675
Total	2686	19786	2770	17421	2855	18408	2939	19364	2997	20032	3054	20671
Grand Total	9261	31507	9422	37550	9781	40097	10129	42380	10446	44383	10761	46056
Cash balance		5450										

misinterpreted to mean that the concept of the banking business has changed. Banks must continue to remain both liquid and profitable. We think that we can achieve the objectives of nationalisation within the framework of our concept of banking business by considering alternative opportunities available in the hitherto neglected markets of agriculture, small-scale industry, transport operators, self-employed, and technician-entrepreneurs. In other words, all that the nationalisation has done is to require the managements of banks to make a creative search for feasible alternatives available in these priority sectors. This might involve more risks but these can be met by appropriate interest rate and liquidity policies.

We have stated earlier that the unique strength of banks is their ability to provide widely accepted liquid and convenient substitutes for currency. In this sense, the strategy to emphasise the payment and transfer function of banks will have tremendous pay-off in terms of deposit mobilisation. There is large potential for deposit mobilisation by encouraging substitution of bank instruments (cheques, demand drafts, travellers cheques, mail transfer, credit cards and the like) for currency, and thereby attracting the transactions cash into the banking system. We suggest that the spread of banking habit should be measured not in terms of the number of bank accounts but in terms of substitution of bank instruments for currency. Savings banking is undoubtedly important, but banks do not enjoy the degree of unique strength in savings banking that they enjoy in providing convenient and liquid means of payment.

Notes

1 The case study of "Praja Bank" by B G Shah and V L Mote, copyright (C) 1970 by Indian Institute of Management, Ahmedabad. The name of the bank is disguised.

2 Survey of ownership relates to March 31, 1970.

3 At present the sub-sectors in the priority sector are defined in broad aggregative terms. It might be more useful to define these in terms of the weaker core populations within each sub-sector. Such a precise definition might be more helpful in measuring the performance of the nationalised banking system in relation to these sub-sectors.

4 This statement is based on our discussions with knowledgeable office bearers of associations of different trades. We maintain that these discussions are adequate for our conclusions.

5 We choose credit activity because it is receiving a good deal of attention since the enunciation of the new banking policy.

6 It is of course true that Sen's freedom to frame alternatives will be conditioned not only by his locale but also by the policy guidelines and business objectives set by the head office. Praja Bank, Ahmedabad, is one of the 250 branches of the bank. It therefore follows that the alternatives that Sen can consider must be congruent with the corporate objective of the bank. This constraint however need not prevent Sen from thinking about what he would like to do and thereby lose initiative in preparing plans which he would like to implement. A planning exercise by a major branch like his can itself contribute to the formulation of a corporate plan.

7 Sections 6, 10, 85A, 89, and 123, 131A of the Negotiable Instruments Act and the relevant case law including case law on banker-customer relations (Joachimson *vs* Swiss Banking Corporation).

8 We use the term investment in the broad sense to cover all assets (cash, securities, loans and advances, etc.)

9 One could think of many other events affecting the cotton textile group of industries such as government policies in the area of price and production control, war-like situation and the like. We are however not building these into our analysis.

10 It could be reasoned that cotton shortage could be made good by import of cotton. Past experience, particularly in the more recent past, has shown that such imports

APPENDIX 2 : PRAJA BANK, AHMEDABAD BRANCH — FIVE-YEAR PLAN FOR ADVANCES

(Rupees in thousands)

Type of Advance	As on 31.12.1970		1971		1972		1973		1974		1975	
	No of Accounts	Amount (Rs)	No of Accounts	Amount (Rs)	No of Accounts	Amount (Rs)	No of Accounts	Amount (Rs)	No of Accounts	Amount (Rs)	No of Accounts	Amount (Rs)
Priority Sector												
Agriculture	247	1160	13	1220	10	1288	10	1356	10	1424	10	1500
Small-scale industries	43	1286	51	1560	60	1820	68	2080	77	2340	86	2600
Retail traders and small businessmen	184	986	240	1200	280	1400	320	1600	360	1800	400	2000
Transport operators	19	141	28	180	36	210	44	240	32	270	60	300
Exports	2	280	2	320	2	360	2	400	2	450	2	500
Consumer loans	23	29	36	48	52	66	68	84	84	102	100	120
Educational loans	5	27	6	30	7	35	8	40	9	45	10	50
Self-employed and others (Professionals, artisans, technicians, etc)	10	29	12	36	14	42	16	48	18	54	20	60
Total of priority sector	533	3938	375	4594	451	5221	526	5848	602	6760	678	7130
Non-Priority Sector												
Industry												
Textile	4	51469	6	51469	6	51469	6	51469	6	51469	6	51469
Beverages	1	1532	1	1532	1	1532	1	1532	1	1532	1	1532
Trades												
Cloth	2	514	2	514	2	514	2	514	2	514	2	514
Mill-gin store	11	344	11	344	11	344	11	314	11	344	11	344
Auto parts	4	221	4	221	4	221	4	221	4	221	4	221
Others	23	6299	23	6299	23	6299	23	6299	23	6299	23	6299
Overdrafts to individuals against shares	70	1615	70	1615	70	1615	70	1615	70	1615	70	1615
Total of non-priority sector	117	61994	117	61994	117	61994	117	61994	117	41994	117	61994

have not helped in holding cotton prices.

11 Definition of a "good" monsoon: For each state the rainfall is classified as 'normal' if the rainfall (in a particular year) is within ± 20 per cent of the standard rainfall. If it is greater than 20 per cent it has excess rainfall and if it is less than 20 per cent it has deficit rainfall. For a particular year the rainfall is classified for each state and if the majority of states have 'normal' rainfall, then it is a 'good' monsoon; otherwise it is bad.

12 Ideally we should have based the assessments of additional funds required in consultation with Sen and his clients. We could not follow this approach because banks are bound by law of secrecy relating to customer transactions. We have therefore assessed these funds needs from the published data of his client mills. Our approach briefly was as follows:

(1) We estimated the average increase of the change in ratio of inventory and accounts receivables to sales over the period 1961-67. This period was chosen as this was the latest period for which we had the data on the behaviour of monsoon.

(2) We estimated for client mills the proportion of their borrowings to Accounts Receivable + Inventory during the period of bad monsoon.

(3) Finally we computed the sales of these mills in 1970.

(4) With the help of this data the requirement of additional funds was computed as follows:

Total sales of client mills (1970)	Rs 2,228 lakhs
Average increase in Accounts Receivable + Inventory	
Sales in the year of bad monsoon (1961-67)	10 per cent
Proportion of borrowings to AR + Inventory during bad monsoon (1961-67)	50 per cent

Extra funds required:

2,228 x .1 x .5 = 111.4 (say, Rs 110 lakhs approximately)

We further assume that the mills will borrow 50 per cent of the additional requirement from the bank and raise the balance by extending suppliers' credit. These suppliers in turn will raise the additional funds (Rs 55 lakhs) from the bank.

APPENDIX 3 : PRAJA BANK, AHMEDABAD BRANCH — SOME POTENTIAL ALTERNATIVES FOR CONSIDERATION

(Rupees in lakhs)

S No	Major Characteristics	Total Amount Advanced (Rs)	Non-Priority Sector	Priority Sector
(1) (Present Plan)	Concentration in textiles in non-priority and diversification in priority	660	94% (proportion of total advances) 620 lakhs	60% (proportion of total advances) 40 lakhs. Agriculture 2% Small scale 2% Retail and small business 2%
(2)	Concentration in textiles in non-priority and diversification in priority (Sen's plan for 1975)	692 (maintain cushion of Rs 145 lakhs)	89% (proportion of total) 620 lakhs Textiles	11% (proportion of total advances) 72 lakhs. (same as above)
(3)*	Concentration in textiles in both sectors	782	50% (proportion of total) 391 lakhs Textiles Others 391	50% (proportion of total) 391 lakhs Cotton-growing farmers Cloth retailers Dealers in textile dyes and chemicals Dealers in mill-gin stores Textile exporters Textile ancillaries Power looms
(4)	Concentration in textiles in both sectors	672 (maintain liquidity cushion of Rs 110 lakhs)	50% (proportion of total) 336 lakhs Textiles Others	50% (proportion of total) 336 lakhs (same as above)
(5)	Diversification in non-priority as well as in priority sectors	782	50% (proportion of total) 391 lakhs Textiles Engineering Chemicals Electronics	50% (proportion of total) 391 lakhs Agriculture, small-scale units of all types, Retailers of all types, Transport operators, Self employed

* Increase in deposits during the period is Rs 145 lakhs (Appendix 1). Of this increase, he plans to advance an additional amount of Rs 32 lakhs (Appendix 2) to priority sector. He will need Rs 22 lakhs by way of additional cash on the basis of the existing cash deposit ratio (Appendix 1). Thus additional amount that can be advanced is Rs 90 lakhs over and above of what is shown in alternative 2.

Experiments in Short-term Investment Forecasting

Samuel Paul

This paper reports the results of an investigation regarding the feasibility of predicting short-term trends in industrial investment in India through use of anticipatory data.

Anticipatory data are non-causal or pre-flow data, the best examples of which are investment intentions and orders for capital goods. They are 'non-causal' data, in the sense that they do not explain any phenomenon. They merely reflect the earlier phases in the investment decision-making process, which can give us some advance signals of the magnitude of the end result. While an analysis of orders for plant and equipment does not shed any light on the basic determinants of investments, it can serve the useful purpose of supplying a link in the prediction of plant and equipment expenditures.

Once the time-lag between orders and deliveries is estimated, it should be possible for us to examine the variables that influence the placement of orders, such as expected profitability, degree of capacity utilisation, and availability of liquid funds. One could, thus, complete the chain from determinants of investment to plant and equipment expenditures, through the link of the order-delivery relationship.

[The author is grateful to Bipin Rajendraprasad and Vabiz Dhanjibhoy for assistance in data collection and analysis.]

I

Introduction

PROBLEMS of long-term economic forecasting have received considerable attention in India in recent years. For the most part, this interest has arisen out of the requirements of national economic planning. Forecasts of national income and its components over the next five or ten years provide the framework within which medium-term development programmes are formulated. Though monitoring and evaluating plan implementation and performance require knowledge of the short-term trends in the economy, it is no exaggeration to say that systematic short-term forecasts which might have helped policy makers to assess the outlook for the next six months or a year have seldom been attempted in India. This is not to deny that governmental agencies like the Ministry of Finance and private organisations have been making their own assessments of the short-term outlook for the economy and its components. But these are informal forecasts, mostly unpublished, so that a public discussion of their assumptions, framework of analysis, and sources of data, is ruled out. This stands in sharp contrast to the detailed publication and debate associated with long-term economic forecasts.

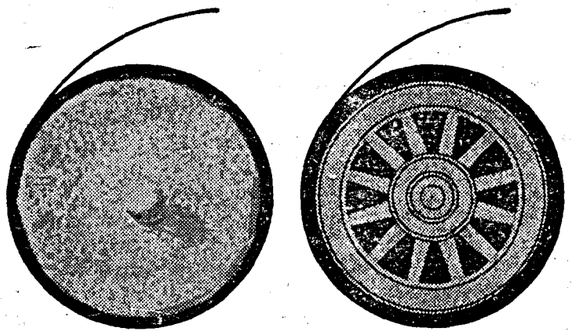
Two major explanations often advanced for our lack of progress on the short-term forecasting front are 'data difficulties' and the 'prevalence of extreme uncertainties'. There are two distinct problems with data: one concerns the adequacy and comprehensiveness of information, and the other its timeliness. Uncertainties are caused not only by political and economic factors but also by natural calamities. These are, no doubt, real problems. Yet strategies have to be planned and decisions made. Short-term forecasts are thus a necessity, despite the additional hazards facing the forecaster in India.

We believe that the development of an elaborate and complete framework for short-term forecasting should be a long-term task, in which appropriate governmental agencies and academic institutions should participate. Meanwhile, a case can be made for initiating research on important aspects of the total problem. Broadly speaking we need to build up our knowledge of consumption expenditure, investment, government consumption, imports and exports, and their interrelationship in Indian context. Considerable data need to be gathered on income. This, of course, is a gigantic task. Even if it cannot be completed in the near future, the results of the investigation of parts of the problem can still be useful to government, firms, and other organisations. While forecasts for the total economy are important for the government, many firms will find even production forecasts relating to their market segments of considerable value in their planning.

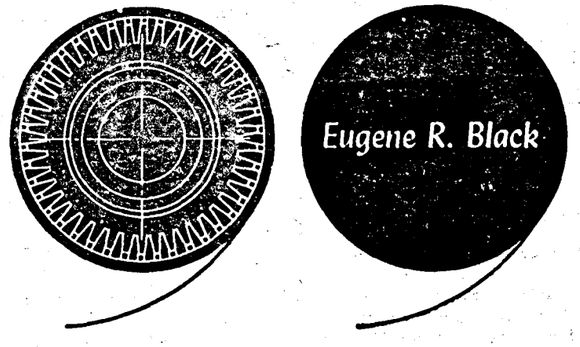
The focus of the present paper is on the problem of forecasting short-run investment trends in the industrial sector of the Indian economy. In view of the interdependence that characterises the economy, partial forecasts which assume one-way causation cannot be considered to be quite realistic.[1] Even so, the search for and development of the relevant relationships and data for partial forecasts must precede any attempt to build a comprehensive model for national economic forecasting.

Investment forecasting generally refers to forecasting the gross fixed investment in the economy. By definition, therefore, we exclude from our purview net changes in inventories — which are also treated as a part of investment in the national income sense. Gross fixed investment consists of two broad components, *viz*, plant and equipment, and construction. It is customary to subdivide construction into residential and non-residential construction. Though we start out below with a discussion of gross fixed investment in general, the thrust of the paper will be on the forecasting of plant and equipment expenditures with the scope of the study limited largely to the organised sector of industry in the economy. 'Short term' is defined to mean a period of one year, although sometime analysts stretch it to two years.

The purpose of this paper is to report the results of an investigation regarding the feasibility of predicting short-term trends in industrial investment in India through use of anticipatory data. Anticipatory data are non-causal or pre-flow data, the best examples of which are investment intentions and orders for capital goods. They are 'non-causal' data, in the sense that they do not explain any phenomenon. They merely reflect the earlier phases in the investment decision-making process, which can give us some advance signals of the magnitude of the end result. While an analysis



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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of orders for plant and equipment does not shed any light on the basic determinants of investments, it can serve a useful purpose of supplying a link in the prediction of plant and equipment expenditures. Once the time-lag between orders and deliveries is estimated, it should be possible for us to examine the variables that influence the placement of orders, such as expected profitability, degree of capacity utilisation, and availability of liquid funds. One could, thus, complete the chain from determinants of investment to plant and equipment expenditures, through the link of the order-delivery relationship.

II

A Review of Experience

Before outlining our approach to investment forecasting, it will be useful to attempt a brief survey of the approaches employed by other countries for forecasting investment. A recent OECD study reports that of the six countries surveyed (France, Netherlands, Sweden, Canada, UK and the US) all, except UK, make some use of functional relationships to obtain estimates of business fixed investment.[2] They use financial variables such as profits, depreciation allowances, and other measures of liquidity, as well as non-financial variables such as capacity utilisation. However, in practice, most of these countries do not use such relationships for forecasting purposes. On the other hand, they may be used by way of 'consistency checks' on the plausibility of their forecasts. According to the OECD survey, all countries except the Netherlands rely almost entirely on non-causal or 'pre-flow' anticipatory variables for forecasting fixed investment. Different types of pre-flow data are used for this purpose. Some countries, especially the UK and the US make use of data on orders for capital goods, building contractors' orders, and similar time series. But the most important pre-flow data used by all countries is investment intentions. In every country, surveys of the investment intentions of a sample of firms is carried out several times in a year, and their results furnish the most important evidence for preparing a forecast of business investment. In the US, forecasters have found data on sales expectations useful in adjusting the full-year investment anticipations. Though the sales expectations themselves have no predictive values, US experience since 1948 has shown that errors in sales forecasts explain most of the revision in annual investment plans.[3]

A number of efforts have been made in recent years to quantify the relationship between orders and investment (or plant and equipment expenditures). In the US, Popkin has set up a model to predict shipments of machinery and equipment by reference to the volume of new orders and orders outstanding in specified preceding periods.[4] Using UK data, Bispham has estimated the relationship between investment in plant and machinery on the one hand, and orders received by the engineering industry and overall capacity utilisation, on the other.[5] Another UK study by Nobay tested the hypothesis that investment in a given period could be predicted by reference to capital appropriations in specified preceding periods.[6] Trivedi has also studied the order-delivery relationship in the UK industry, using econometric techniques.[7] Availability of time series data for a sufficient number of periods in the US and UK, was a major factor that made it possible for these scholars to test their hypotheses. These studies reinforce the feasibility and desirability of developing forecasting models using anticipatory data, although these models do not postulate any functional relationships of the 'explanatory' type.

There is room for disagreement as to whether we should attempt to estimate functional relationships for forecasting fixed investment in India. There are several reasons why we would regard it as an inappropriate approach in the Indian context of today. In the first place, the functional relationship between investment and variables such as capacity utilisation, profitability, and measures of liquidity, presupposes an economy in which the play of market forces is relatively unconstrained. Apart from the fact that public sector firms need not necessarily be influenced by these factors, if existing public policies and controls prevent private firms from responding to market forces — which goes against the assumption underlying functional relationships — the estimation of these relationships cannot be justified on theoretical grounds.

To illustrate: profitability and liquidity may be high for many large firms, yet further investment by them may be prevented by the government as part of an effort to restrict monopoly and concentration of power. To cite another example: even when capacity utilisation declines, firms may be tempted to expand their capacity if they find that the dominant criterion for scarce raw material allocation is capacity itself.[8] The argument is not that a particular policy is right or wrong, but rather that in an environment in which controls and non-economic criteria dominate and change over time, the behaviour of firms cannot be expected to conform to that assumed by economic theory which underlies the functional relationship approach. We need to understand a great deal more about the behaviour of firms, in our own setting, before pursuing this approach in depth.

A second reason is that a functional relationship cannot be of much use in forecasting, unless the independent variables are of a lagged type. One of the reasons why this approach has not been popular with forecasters in other countries is precisely the difficulty in fulfilling this condition. A third problem has to do with data limitations, which are especially severe in India. We do not, for instance, have a sufficiently long and reliable series even on corporate investment.

A final reason for not being too enthusiastic about the use of functional relationships for investment forecasting is the rather poor predictive performance of econometric models of investment behaviour in comparison with alternative approaches in other countries. A recent US study, comparing the predictive performances of econometric models with that of anticipatory data, has drawn the following conclusion:

> "the explanation of investment behaviour provided by anticipatory data can be compared with that provided by econometric models. Not unexpectedly, the anticipatory data provide an explanation of actual investment expenditures that is superior to that provided by econometric models for all but a very few of the 15 industries. The performance of these data provides a clear indication of the value of the anticipation surveys. No econometric model currently available can compete with the anticipated investment data in explanatory power. The anticipatory data are superior to the auto-regressive scheme for all 15 industry groups, again a clear indication of the value of surveys of anticipated Investment expenditures."[9]

In view of these several considerations, we are inclined to take a rather cautious view of the usefulness of functional relationships in investment forecasting at this stage in India.

III

Plant and Equipment Forecasting through Orders

In view of the findings reported above, we decided to abandon the estimation of functional relationships for the time being and to try the alternative approach of forecasting investment through orders for capital goods. Orders refer to the firm com-

TABLE 1 : NEW ORDERS AND DELIVERIES OF NON-ELECTRICAL MACHINERY

(Rs lakhs)

	1965-66	1966-67	1967-68	1968-69	1969-70
Value of new orders	5445	6055	8061	7202	11126
Value of deliveries	4682	4604	4974	6629	6398

TABLE 2 : ORDERS AND DELIVERIES (NON-ELECTRICAL) AT CONSTANT PRICES

(Rs lakhs)

	1965-66	1966-67	1967-68	1968-69	1969-70
Value of orders	5445	5606	7262	6373	9120
		(+3)	(+25.5)	(—12.2)	(43)
Value of deliveries	4682	4604	4606	5972	5662
		(—1.7)	(0.0)	(+29.7)	(—5.2)

Note : Figures in brackets indicate annual rates of change, per cent.

mitments made by investors for purchase of plant and equipment. Like investment intentions, orders for capital goods also belong to the category of 'anticipatory variables', but they suffer from some limitations which tend to make them a less effective tool for forecasting than the former.

First of all, while investment intentions cover plant and equipment expenditures as well as construction expenditures, orders for capital goods are directly related to only plant and equipment expenditures. If the proportion of construction expenditures in fixed investment varies from one year to the next, the order variable will fail to yield reliable forecasts of fixed investment. Secondly, orders can be a useful predictor only if there is a systematic and predictable time-lag between the placing of orders by investors and the occurance of investment. The lags may, in fact, vary both because of the changes in the mix of plant and equipment desired and because of environmental changes imposing unexpected supply restrictions on the manufacturers of plant and equipment. Thirdly, plant and equipment may be procured either from indigenous sources or from abroad. This means that orders relating to the two categories have to be estimated separately, and the task of collecting data on orders for imported capital goods can, indeed, be difficult. As against these handicaps, the order approach has only one redeeming feature and that, too, if the proportion of imported machinery in fixed investment is negligible. While the investment intentions survey involves canvassing the entire sector of industry covering a very large number of firms, order data could be collected from a relatively small number of firms since the manufacture of plant and equipment is likely to be confined to a small segment of industry. Collection of order data will be a more easily manageable task, therefore, if imports of machinery are small.

Fixed investment in industry is made up of four components: (1) land, (2) buildings, (3) plant and machinery, and (4) other fixed assets. Plant and machinery refer to the machines and equipment directly employed in the manufacturing process. Other fixed assets refer to numerous items that are less central to the process. Examples are: furniture, implements, motor vehicles, and office equipment. An analysis of the additions to gross fixed assets of all companies (public limited, private limited and government) surveyed by the Reserve Bank of India during the period, 1960-67, shows the following average pattern of distribution of fixed assets among the four components.

Component	*As Per Cent of Total*
Land	3
Buildings	16
Plant and machinery	72
Other assets	9

Plant and machinery is by far the most important component of fixed investment. Its percentage has varied between 69 and 75 during the period 1960-67. On the whole, plant and machinery expenditures represent a reasonably stable percentage of total corporate fixed investment.

Once an investment decision is taken, procurement of plant and equipment is an area in which action will be initiated first by the management of the firm. Since most plant and equipment are custom made, the practice is to place advance orders on the manufacturers for the required items. Obviously, ordering is unnecessary for some items which can be bought off the shelf. In general, the value of an order represents only the ex-factory price of the plant and equipment ordered. Taxes, freight, erection costs, accessories, etc, are extra. We estimate that an extra 50 per cent should be added to the value of orders to cover these costs.

Plant and equipment may be classified under three broad heads: (1) machine tools and metal working machinery which are primarily used by engineering industries; (2) general non-electrical plant and equipment used by all industries; and (3) electrical machinery chiefly used by electricity companies, and to some extent by general industry. Orders for any of these may be placed on indigenous manufacturers or on suppliers abroad. The present study is limited to the second category, *viz*, non-electrical plant and equipment. Adequate data were not available on the other two groups.

Imports of plant and equipment into India have declined significantly in recent years. The value of imports of machinery (finished goods) as defined above has declined from Rs 166 crores in 1966-67 to Rs 64 crores in 1969-70. The evidence points to a steady decline from one year to the next and is, no doubt, a consequence of the country's import substitution strategy. It would seem that the role of imported machinery will continue to be relatively small in industrial investment in the years to come.

Our experiments in forecasting the volume of imported machinery did not yield any useful results. Import licences for machinery (aggregated) appeared to bear no predictable relationship to the actual imports of machinery. Taking a sample of 100 cases, we also examined the relationship between banks' letters of credit for machinery imports and the actual imports against them. While there was always a time-lag between the issue of letters of credit and imports, we did not observe any stability in these lags. There is also the problem that a good deal of import could take place without the issue of letters of credit. Perhaps a disaggregated analysis of the licence data available with Capital Goods Licensing Committee might yield some useful insight However, we decided not to pursue this line in view of the declining role of imported machinery in the country, and to focus our attention instead exclusively on indigenous plant and equipment forecasting.

The first step in the study of general plant and equipment was the preparation of a comprehensive list of the indigenous manufacturers. There is no evidence that such a list exists in published form. The final list was prepared using the handbooks of DGTD and various manufacturers' associations and in consultation with a few leading machinery manufacturers. The 61 firms on our list were first contacted by mail. Subsequently, most of the firms were visited by the researchers in order to explain the purpose of the study in detail and to seek their co-operation.[10] Of these, nine firms were found irrelevant for the study and 18 firms could not furnish the data; 34 firms furnished the required data either in full or in part in the first round of our survey.

Though the questionnaire was designed to collect data on orders and deliveries for the past eight years, only two firms were able to furnish us data for such a long period. For many firms, systematic recording of orders was a new practice.[11] It was found that only 16 firms had order data going five years back; 22 firms furnished data for the previous two years only (1968-69 and 1969-70). The analysis of lag structures attempted below is based on the data furnished by the 16 firms. The orders reported by companies refer to the new orders booked during the year, net of any cancellations which may have occurred in the same period. Deliveries refer to shipments made by the manufacturers to the investing firms during the same year. These deliveries may or may not have been made against orders booked during the year.

The data on orders and deliveries for the 16 firms are given in Table 1.

Though we have only five observations, graphical analysis reveals a clear lag of one year between orders and deliveries. Because of the heterogeneity of products, the respondents were unable to specify a simple average lag period between orders and deliveries. But when aggregated over all firms, a reasonably stable pattern emerges. The lag structure remains the same, even after adjusting the two series for price changes (see Chart I). The order series would have given us an advance signal about the pick up after the recession at least a year ahead. The decline in plant and equipment output which occurred in 1969-70 could also have been predicted by the orders received in 1968-69. Thus an analysis of the order-delivery relationship of the 16 firms for which we have continuous data for five recent years shows that new orders booked in year t moves ahead of the deliveries in year t + 1 with a clear lead of one year. Since the deliveries soon get reported as plant and equipment expenditures by the purchasing firms, one can directly use the order series for predicting non-electrical plant and equipment expenditures one year ahead.

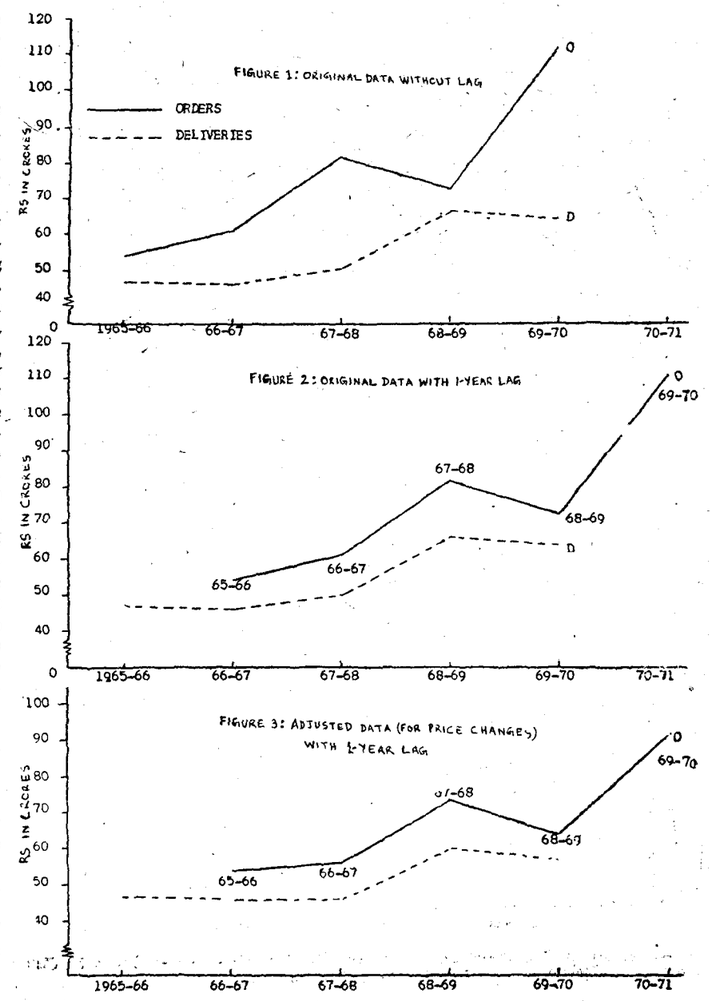
Taking advantage of the one year lead provided by the order series, we attempted a forecast for plant and equipment expenditures for 1970-71. First of all, it may be noted that the orders for non-electrical plant and equipment received during 1969-70 are substantially higher than in the preceding year. About 50 per cent of the orders originate from the private sector and the remainder from the public sector. Given the lag structure, one would predict that a correspondingly large increase in deliveries of indigenous plant and equipment for investment will take place in 1970-71. As against the mild decline or stagnation experienced in 1969-70, there should be a revival or expansion in the production of capital goods in 1970-71.

One can estimate the rate of increase based on the past relationship that has been found to exist between orders and deliveries. However, the year-to-year movements in orders and deliveries reflect changes in the prices of machinery along with real changes in quantity. To eliminate the influence of price changes, we deflated both series (orders and deliveries) by an appropriate price index for non-electrical machinery. The deflated series and their annual rates of change are given below.

Since our interest was in predicting the rate of increase in deliveries in 1970-71, we made use of our data on orders and deliveries for 22 firms since this gave us a larger sample for computing the potential rate of growth. The total value of orders for these companies had increased from Rs 90 crores in 1968-69 to Rs 130 crores in 1969-70. After adjusting for price changes, the real rate of increase in orders worked out to be 33 per cent.

The question was whether deliveries of plant and equipment, and hence investment, would also grow by 33 per cent in 1970-71. A number of factors needed to be taken into account at

CHART I: ORDERS AND DELIVERIES FOR PLANT AND EQUIPMENT (NON-ELECTRICAL: 16 FIRMS)



this stage. (1) Will deliveries be delayed because of supply limitations such as raw material shortages? (2) To what extent is the steep increase in orders for indigenous plant and equipment offset by a simultaneous reduction in the imports of equipment? (3) Is the revival in orders due to increase in export demand rather than demand for domestic investment?

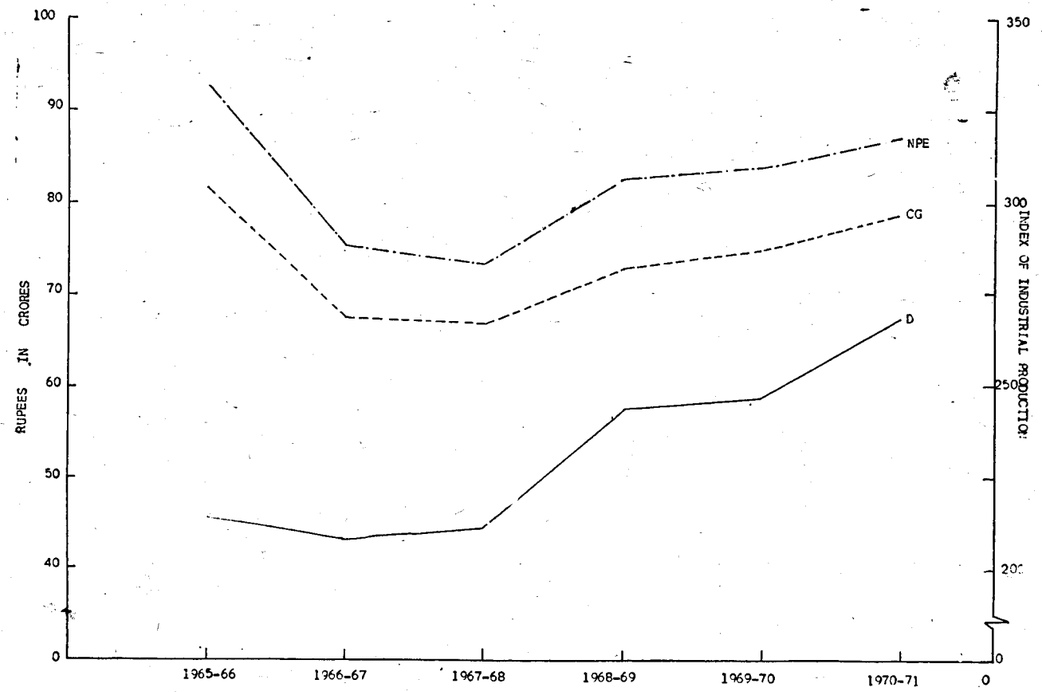
We did not have clear answers for all these questions. As for the first point, it was known at the time of forecasting that shortages of steel and other metals would be a constraint on deliveries in 1970-71. Firms were quoting longer delivery periods. In fact, the steep rise in orders provided a partial explanation of the shortages that emerged. To the extent that timely supplies of imported steel and other items were not available, a spill-over of deliveries into 1971-72 was bound to occur. If so, the rate of increase in deliveries in 1970-71 could be expected to be more modest than might have been predicted on the basis of orders.

On the second question, it is true that imports of non-electrical machinery have been declining in recent years. These was no reliable indicator of the likely imports in 1970-71. One would imagine that part of the increase in indigenous orders reflects import substitution. But one cannot explain away the steep rise in orders, unless it could be shown that the decline in machinery imports fully offset the growth in orders. On the argument that exports orders could have gone up, our analysis of the orders by customer category showed that exports accounted for only a very small proportion of the total orders. A careful consideration of all these factors suggested that a 33 per cent increase in deliveries might not materialise in 1970-71. We made a forecast that the production of non-electrical plant and equipment would definitely show a marked rise in 1970-71, perhaps of 15 per cent over the preceding year.[12]

In order to test our forecast against actuals and to gather fresh data to make a forecast for 1971-72, we went back again to our sample of firms towards the end of 1971. An analysis of the deliveries made by our original sample of 16 firms showed an increase of 14.6 per cent in 1970-71 over the preceding year.[13] For our sample of 22 firms, the rate of increase was 17.4 per cent. This may be compared with our prediction of a 15 per cent increase in non-electrical plant and equipment. Though orders in the preceding year had gone up by 33 per cent, deliveries went up by only a little over half the increase in orders. As we suspected, raw material shortages and other difficulties did exert a restraining influence on the output of plant and equipment in 1970-71.

Most economists and business analysts would be interested in whether the order and delivery series of our sample of firms could be used to predict the plant and equipment expenditures at the national level. In the absence of a comprehensive time series on the latter, we have taken the capital goods component of the index of industrial production for purposes of comparison. The capital goods index, as reported in the *RBI Bulletin*, is more broad-based than the non-electrical machinery segment on which we have focused attention. A more comparable component of the industrial production index is the segment consisting of prime movers and boilers, industrial machinery, and machinery components and accessories. Chart II provides a comparison of our delivery series, the index of industrial machinery and the index of capital goods. It would seem that our delivery series moves very closely up and down with the index of industrial machinery. The closeness between the delivery series and the index of capital goods is not as impressive. A more comprehensive sample would very definitely give us a series capable of depicting more accurately the ups and downs in our capital goods sector.

CHART II: DELIVERIES OF PLANT AND EQUIPMENT VS INDEX OF INDUSTRIAL PRODUCTION



—.—.—Index of Non-Electrical Plant and Equipment; — — — Index of Capital Goods excluding Transport Equipment; ——— Deliveries of Non-Electrical Plant and Equipment.

New orders booked in 1970-71 by the original sample of 16 firms had gone down by 13.6 per cent (deflated) compared to the preceding year. For a larger sample of 29 firms, new orders were found to have declined by 6 per cent in 1970-71. Thus, in real terms, the volume of orders for plant and equipment appear to have shrunk in 1970-71. Possibly, this reflects the much discussed slowdown in investment decision-making in the years immediately preceding 1970-71. If investment decisions (both private and public sector) are deferred or abandoned, placement of orders will naturally not occur.

Does it mean that deliveries of plant and equipment or expenditures on plant and equipment will decline in 1971-72? There is another dimension to the problem which deserves to be considered at this stage. Though new orders had declined in 1970-71, orders outstanding — an index of the backlog or length of the queue facing the firms — had increased substantially. Orders outstanding as at the end of 1970-71 increased by 13 per cent. This increase is largely due to the fact that production could not be stepped up in 1970-71 because of raw material shortages. The steel supply position improved somewhat in 1971 following increased imports. At the same time, the Indo-Pakistan war put fresh constraints on industry. On balance, we feel that plant and equipment expenditures, in real terms will not decline in 1971-72. Any increase, however, will be only marginal, perhaps of 5 per cent.

IV

A Cross-Section Analysis of Orders

The role of 'unfilled orders' or 'backlog of orders' brings into sharp focus a major limitation of our simple graphical analysis. Given data for only five or six years, we cannot possibly take into account simultaneously the effect of new orders as well as the unfilled orders on deliveries. Both variables are likely to have an impact on deliveries. Even if fresh orders are negligible, if an order backlog exists, deliveries may go up as the backlog gets worked off. In other words, the pressure of the unfilled orders could well be a significant variable influencing deliveries — and hence plant and equipment expenditures. Since we do not have an adequate time series to test this hypothesis, we have attempted a cross-section analysis of the order-delivery relationship for the firms in our sample for a few periods. In this analysis, we have specified a number of alternative models. One model considers the deliveries of a firm in year 't' as a function of its new orders in year 't — 1' alone. A second model treats the deliveries of a firm in year 't' as a function of its new orders in year 't — 1' as well as of its unfilled orders as of the end of 't — 1'. A third model considers another measure of unfilled orders along with new orders.

TABLE 3 : CROSS-SECTION ANALYSIS OF ORDERS

Model	Year	Regression Co-efficients b	t-ratio	c	t-ratio	$\bar{R}^2$	SEE
(1) $D_t = a + bN_{t-1}$	1966-67	.88	11.88		-	.90	112.61
	1967-68	.80	14.04			.93	91.81
	1968-69	.68	6.99			.76	223.14
	1969-70	.89	9.30			.85	164.49
	1970-71	.75	5.05			.62	335.67
(2) $D_t = a + bN_{t-1} + cU_{t-1}$	1966-67	.78	10.24	.28	2.37	.93	97.66
	1967-68	.76	9.06	.10	0.69	.93	93.57
	1968-69	.57	3.24	.26	0.74	.75	226.78
	1969-70	.72	10.53	.24	4.84	.94	101.97
	1970-71	.53	3.26	.40	2.27	.71	294.60
(3) $D_t = a + bN_{t-1} + c\frac{N_{t-2}}{D_{t-1}}$	1967-68	.80	13.37	2.74	0.10	.92	95.23
	1968-69	.69	7.24	100.38	1.29	.77	218.00
	1969-70	.90	8.79	17.24	0.30	.84	170.82
	1970-71	1.30	22.48	83.75	3.17	.97	91.50

We had the sample of 16 firms for which the required data were available for five years. Three different models which we thought were most appropriate were applied to the cross-section data for each of these years. The equations corresponding to these models were the following:

$$D_t = a + bN_{t-1} + e_t \quad (1)$$

$$D_t = a + bN_{t-1} + cU_{t-1} + e_t \quad (2)$$

$$D_t = a + bN_{t-1} + c\frac{N_{t-2}}{D_{t-1}} + e_t \quad (3)$$

where

D_t = deliveries in year t

N_{t-1} = new orders booked in year t—1

U_{t-1} = unfilled orders as of the end of t—1 = $(U_{t-2} + N_{t-1} - D_{t-1})$

e_t = error term

In model 3 ratio $\frac{N_{t-2}}{D_{t-1}}$ was used as proxy for U_{t-1} for two reasons.

First, we had some doubts about the credibility of the data on unfilled orders (U_{t-1}) because in several firms there was poor record-keeping in respect of cancellations of old orders. Orders pending for several years must be viewed with some suspicion since cancellations of earlier orders are not always properly adjusted for. On the other hand, the ratio of the new orders of a year to the deliveries of the succeeding year is a pretty good index of the additional pressure being put on the backlog. It does not represent the entire queue, but does point to its more crucial and reliable segment.

The results of the cross-section analysis are reported in Table 3. Both linear and logarithmic regressions were attempted. However, since the results of the log models did not add to our insights, results of the linear regressions alone are reported.

The results reported in Table 3 lend strong support to the findings of our earlier graphical analysis of the time series data. 'New orders' are a significant explanatory variable in all models for all years. The 'unfilled orders' variable is significant only for 1969-70 and 1970-71. Even in these years, the new orders variable is even more significant. The regression co-efficients have the expected signs in all cases except in model (3), year 1968-69, where the co-efficient of

$$\frac{N_{t-2}}{D_{t-1}}$$

has a negative sign. The only case where $\bar{R}^2$ has considerably improved (from 0.62 to 0.97) as a result of adding the unfilled orders variable, is in the cross-section analysis for 1970-71.

None of the models we have considered in the cross-section analysis emerges as a consistent winner. Judged by the tests of $\bar{R}^2$ and standard error of estimate, model (3) could perhaps be regarded as marginally superior to the others. More systematic time series analysis is required before a definitive verdict on the adequacy of any particular model can be pronounced.

V

Conclusion

In this paper, we have explored the possibility of using the order-delivery relationship in the capital goods in-

dustry for predicting plant and equipment expenditures in the short run. The result of our experiments so far have been encouraging, though further work with more comprehensive and preferably time series data needs to be done before we can draw any definitive conclusions on the subject. The major findings of our study and the limitations of our approach are summarised below:

(1) Our analysis of the data for a sample of companies for a period of six years shows that there is a reasonably stable relationship between the orders for and deliveries of non-electrical plant and equipment, orders leading deliveries by one year. Factors such as raw material constraints will, no doubt, disturb the stability in the order-delivery relationship as has been shown by the experience in 1970-71. However, we do not think that the impact of these extraneous factors will be so severe as to render forecasting impossible. Even in 1970-71, when the steel shortage was critical, we were able to predict the turning point correctly although the magnitude of change was not accurately forecast by the movement in orders.

(2) A cross-section analysis of the order-delivery relationship confirmed the extremely significant role of new orders in determining deliveries. Unfilled orders as an independent variable was highly significant only in 1970-71. We should be cautious, however, in rejecting unfilled orders from our model simply on the basis of the cross-section analysis. Work with time series data and experiments with other models may shed more light on the role of this variable, the significances of which cannot be doubted on theoretical grounds.

(3) The forecast for plant and equipment which we made for 1970-71 turned out to be pretty close to the actual for the sample of companies considered. Our forecast was less satisfactory in predicting the trend in the index of non-electrical machinery, which is a part of the index of industrial production. However, the movement of our deliveries series has closely paralleled that of the index of non-electrical machinery in the all India index. Based on the trend in new orders and the state of unfilled orders, we have predicted a somewhat gloomy outlook for non-electrical plant and equipment for 1971-72. Deliveries will be at about the same level as last year's, or perhaps marginally higher.

(4) Deliveries are not the same as plant and equipment expenditures. To complete the chain from orders to investment in plant and equipment, we need to forge a link between deliveries and expenditures on plant and equipment. The lag between the two may not be considerable. Transport and erection are the two operations between these two stages. We expect to explore this aspect further in the near future.

(5) In the absence of a series on plant and equipment expenditures for the period under study, there is no direct means of estimating the relative contribution of our sample of firms to the total plant and equipment expenditures in the industrial sector. Instead, we have compared the total value of deliveries of our sample firms with the total value of production of non-electrical machinery as reported by government sources.[14] According to the Ministry of Industrial Development, non-electrical machinery accounts for about 6 per cent of the entire manufacturing sector and 30 per cent of all capital goods. The total values of non-electrical machinery produced in India in 1965 and 1969 were Rs 121 crores and Rs 166 crores, respectively. Deliveries as reported in Table 2 amount to 38.8 per cent of the total production of non-electrical machinery in 1965 and 38.6 per cent of that in 1969. If we consider the deliveries reported by the 22 firms in our sample (which furnished data only for two years), the percentage of coverage in 1969 will rise to 46.9. It is possible that this is an overestimate. All manufacturers of plant and equipment may not be reporting their production to DGTD. Manufacturers not borne on the DGTD register are excluded from the production reported by DGTD. Also, the categories of machinery covered by DGTD may not be complete. Even if some adjustment is made for these limitations, the comparison of our data with DGTD data shows that our coverage is reasonably good.

(6) It is important to remember that a comprehensive series on orders will cover investment in both the private and public sectors. Our experience shows that plant and equipment manufacturers can furnish data by broad sectors as well as by the end use of the machinery. This type of disaggregation, however, has not been done in the present study.

The only way to generate order data is by enlisting the co-operation of all manufacturers of plant and equipment. Of the companies questioned by us 75 per cent have indicated their willingness to furnish the required order and delivery data on a continuing basis. Machine-tool manufacturers are also agreeable to the idea of continually collecting and analysing order data. Nearly two thirds of those who agreed to furnish the data said that order data could be made available on a quarterly basis. In view of the potential access to the data from a sizeable segment of the industry, the chances are bright for developing and disseminating a new order series for plant and equipment on a continuing basis.

Notes

1 'Partial' in the sense that the forecast pertains to some part or component of the economy and not to the whole.

2 OECD, "Techniques of Economic Forecasting", (Paris, 1965), p 15.

3 *Ibid*, p 155.

4 Popkin, J 'The Relationship between New Orders and Shipments: An Analysis of the Machinery and Equipment Industries', *Survey of Current Business*, March 1965.

5 Bispham, J A, 'The Use of Engineering Orders for Forecasting', *National Institute Economic Review*, August 1970.

6 Nobay, A R, 'Forecasting Manufacturing Investment — Some Preliminary Results', *National Institute Economic Review*, Number 52, May 1970.

7 Trivedi, P K, 'The Relation between the Order Delivery Lag and the Rate of Capacity Utilisation in the Engineering Industry in the United Kingdom', 1958-1967, *Economica*, February 1970.

8 Bhagwati, J N, and P Desai, "India: Planning for Industrialisation", London, Oxford University Press, 1970.

9 Dale W Jorgenson, Jerald Hunter and M Ishag Nadiri, 'A Comparison of Alternative Econometric Models of Quarterly Investment Behaviour'. *Econometrica*, Volume 38, Number 24, March 1970, p 209.

10 This was considered important because of the sensitiveness about order data and the reluctance of firms to part with the details.

11 By 1969, all firms had order data in some form or another, though seldom in the manner in which the researchers wanted.

12 This forecast was presented at the Seminar on Short Term Forecasting held on April 12, 1971 at IIM, Ahmedabad.

13 Only 15 firms responded in the second round. One small firm had closed down in 1971.

14 Ghosh, A K, "Review of Industrial Progress during the Planning Period: An Assessment of Strategy"; Paper read at the Seminar on Industry and the Fourth Plan, University of Bombay, Bombay, March 29-31, 1971, (mimeographed).

Investment in Private Corporate Sector in 1972

A Forecast

C Rangarajan

An attempt is made in this article to forecast investment in the private corporate sector in 1972 on the basis of data available with the term-lending institutions.

If the expenditures on projects sanctioned by the term-lending institutions can be taken as an indicator of the level of investment in the entire private corporate sector, the conclusion that can be drawn is that private corporate investment in 1972 will exceed the level reached in 1972, but will stay slightly below the level reached in 1970.

The industrywise break up suggests that in 1971 as much as Rs 93 crores of capital expenditure was made in the chemical and pharmaceutical industry. Indications are that in 1972 approximately Rs 75 crores of expenditure will be made in the chemical and pharmaceutical industry. There is likely to be a decline in investment in engineering and textiles. Investment in cement and transportation, including shipping, is likely to show a rise.

IN an earlier article[1] the present author had outlined a technique for forecasting investment in the private corporate sector by using data available with the term-lending institutions such as the Industrial Credit and Investment Corporation of India, the Industrial Finance Corporation and the Industrial Development Bank of India. Most projects in the corporate sector approach one or other of the term-lending institutions for obtaining finance.[2] The lending institutions are in the natural course supplied with the most complete data on the projects for which financial assistance is sought. The cash-flow statement appended to a project shows not only the total cost of the project but also the expected expenditures in each of the years during the period of construction. By aggregating over projects the information available on the time-phasing of capital expenditures on projects, one can at the beginning of any year indicate the investment that is likely to be made in the course of the year on all projects for which assistance had been provided by the financial institutions. This will include expenditures on projects sanctioned not only in the immediate past year but also those sanctioned in all the previous years and on which expenditures are to be incurred during the year. The limitations of this approach for forecasting investment in the entire corporate sector were dealt with in the article mentioned earlier. Nevertheless, so long as the bulk of the projects in the corporate sector depend on the long-term financial institutions for assistance, this approach of pooling the data available with these institutions can provide a satisfactory basis for forecasting.

Data collected from ICICI, IFC and IDBI on the phasing of capital expenditures on projects approved by them are presented in Table 1. When horizontally read, it shows the capital expenditures that would be incurred in various years on projects for which assistance was provided in a given year. Vertically read, it shows the capital expenditures that would be incurred in a year on projects to which assistance had been given in that year and in previous years. Table 2 gives an industry-wise classification of the capital expenditures for the years 1969, 1970 and 1971 and of the expected expenditures for 1972 based on sanctions upto the end of October 1971.

Forecast for 1971

Based on a table similar to Table 1 an attempt was made at the end of 1970 to make a forecast on the level of investment in corporate sector in 1971.[3] At the end of 1970, it was clear that the capital expenditures in 1971 on projects sanctioned upto the end of October 1970 would come to Rs 233 crores. This would be approximately Rs 100 crores less than the total capital expenditures of Rs 336 crores incurred in 1970. It was pointed out that this difference of Rs 100 crores would be too large to be filled in by expenditures on projects to be approved in 1971 itself. Thus the forecast was that the 1971 level of investment in corporate sector would be lower than that of 1970.

We do not have yet the series on capital formation in corporate sector to conclusively establish whether the forecast made was correct. However we do know that as at the end of October 1971 the capital expenditures on projects sanctioned by the lending institutions upto the end of that period came to Rs 285 crores. Of this Rs 50 crores came out of projects sanctioned in 1971 itself. The total expenditure of Rs 285 crores in 1971 is Rs 53 crores less than that reached in 1971. Even allowing for the fact that the total expenditures in 1971 would be higher than Rs 285 crores because of the inclusion of expenditures on projects sanctioned in the last two months, the decline in corporate investment in 1971 as compared to 1970 is confirmed by the data that we have.

Forecast for 1972

What about 1972? Taking into account all the projects approved by the three lending institutions upto the end of October 1971, it is seen that the total capital expenditures in the corporate sector in 1972 will be Rs 230 crores. Of this, Rs 50 crores of expenditure would be on projects initiated in 1971 and the rest on projects initiated earlier. This is Rs 55 crores less than total capital expenditures of Rs 285 crores incurred in 1971. However, capital expenditures in 1972 will include expenditures on projects sanctioned in 1972 itself. In fact, some very big projects have been sanctioned in the last two months of 1971 which might themselves lead to a capital expenditure of Rs 25 crores in 1972. Further a minimum of Rs 50 crores of capital expenditures in a year is made on projects sanctioned in that year itself. In fact, a number of applications for financing 'mini' steel projects is pending with these institutions. Taking both these into account, one gets a total expenditure of approximately Rs 305 crores which would exceed the total expenditures incurred in 1971 by Rs 20 crores. It must, however, be noted that in 1970 the capital expenditures incurred on projects approved by the three term lending institutions came to Rs 337 crores. Thus if the expenditures on projects sanctioned by the term-lending institutions can be taken as an indicator of the level of

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TABLE 1 : PHASING OF CAPITAL EXPENDITURE OF PROJECTS SANCTIONED BY ICICI, IFC AND IDBI FROM 1960 TO 1971

(Rs in lakhs)

Year of Sanction	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
1960	3894	3118	1311	196	87	85	72	39	44	—	—	—	—	—	—	—	—	—	—
1961	420	3497	5039	1812	409	254	212	76	41	21	—	—	—	—	—	—	—	—	—
1962	—	723	2825	3769	2448	696	269	238	134	52	26	—	—	—	—	—	—	—	—
1963	—	—	272	3534	5014	3943	1738	165	112	80	63	53	40	30	—	—	—	—	—
1964	—	—	5	759	4839	5618	3498	1447	354	295	153	79	47	28	12	2	—	—	—
1965	—	—	—	24	773	6102	10147	7227	1897	754	449	202	184	135	21	—	—	—	—
1966	—	—	—	80	175	872	5994	7393	6202	4920	2397	1127	623	397	359	151	—	—	—
1967	—	—	—	—	—	6	201	4651	12160	9407	4377	2041	424	308	190	138	23	3	12
1968	—	—	—	—	—	—	—	232	4276	9170	6655	4219	2768	1711	178	110	53	5	—
1969	—	—	—	—	—	—	—	—	74	8914	14618	7850	6213	2172	445	164	54	12	—
1970	—	—	—	—	—	—	—	—	279	74	4545	7817	6704	2193	647	403	176	332	315
1971 (upto Oct 1971)	—	—	—	—	—	—	—	—	—	—	397	5180	5948	3533	3000	457	259	151	129
	4314	7339	9451	10173	13745	17574	22131	21468	25574	33750	33679	28567	22951	10507	4850	1424	565	512	456

TABLE 2: INDUSTRY-WISE CAPITAL EXPENDITURE FOR THE YEARS 1969-1972 FOR PROJECTS SANCTIONED BY ICICI, IFC AND IDBI

(Rs in lakhs)

	1969	1970	1971	1972*
(1) Chemicals and Pharmaceuticals	2395.79	5790.90	9325.37	5431.70
(2) Electrical	995.30	1174.08	1178.02	1195.00
(3) Engineering	7520.34	6397.68	6324.32	4591.74
(4) Jute	665.99	719.37	140.00	131.00
(5) Minerals and Metals	6177.25	3480.00	2800.75	2884.50
(6) Paper	879.90	895.70	1444.60	1032.76
(7) Textiles	2960.84	3339.71	4215.55	2442.21
(8) Transport	1191.00	1423.00	406.00	1473.63
(9) Cement	2198.60	567.40	593.00	692.00
(10) Miscellaneous	8325.31	10108.06	2538.63	2283.55
Total	33310.32	33895.90	28966.24	22158.09

* Expected expenditures in 1972 based on sanctions upto the end of October 1971.

investment in the entire corporate sector, the conclusion that can be drawn is that private corporate sector investment in 1972 would exceed the level reached in 1971, but perhaps will stay slightly below the level obtained in 1970.

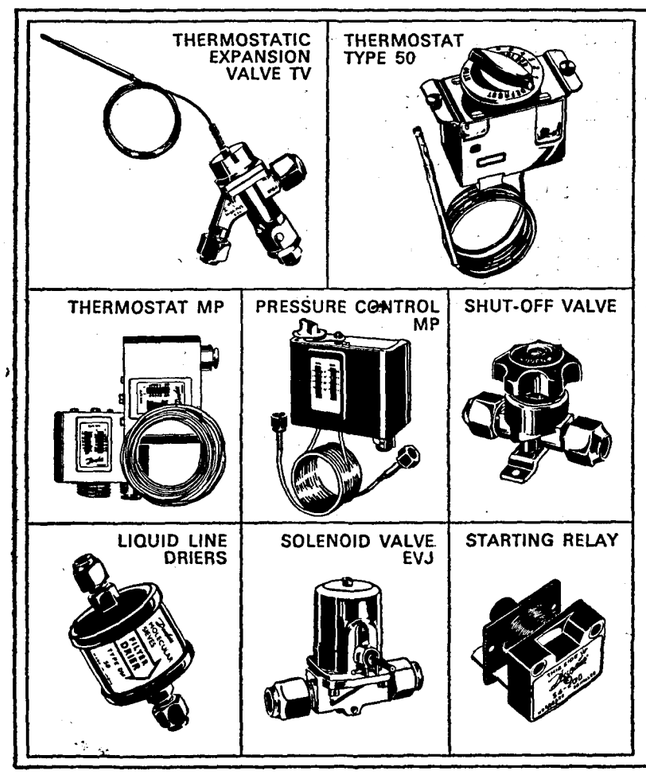
The industry-wise break-up indicates that in 1971 as much as Rs 93 crores of capital expenditures were made in chemical and pharmaceutical industries. As of now, the indications are that in 1972 approximately Rs 75 crores of expenditures (after taking into account projects sanctioned in the last two months of 1971) will be made in chemical and pharmaceutical industries. There is likely to be a decline in investment in engineering industries and textiles. Investment in cement and transportation (including shipping) would show a rise.

Notes

1 C Rangarajan, "Forecasting Capital Expenditure in the Corporate Sector", *Economic and Political Weekly*, December 19, 1970.

2 The data collected for this study indicates that the projects approved by ICICI, IFC and IDBI accounted for a total capital expenditure of Rs 337 crores in 1969 while the *Economic Times* estimates the gross investment in the corporate sector in 1969-70 as Rs 564 crores.

3 C Rangarajan, *op cit.*



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The Pharmaceutical Industry in India

P K Ramachandran
B V Rangarao

Though there are a large number of units in the Indian pharmaceutical industry, the core of the industry is dominated by multinational firms operating as Indian subsidiaries and by firms with foreign financial or technical participation. These firms greatly depend on imported technology and imported raw materials for production.

As a whole, the pharmaceutical industry in India is far less productive than it is in other countries — judged by the investment to production ratio. The majority of the products are 10 years, or more, old and the technology cannot be termed 'advanced' by Western standards. The visible and invisible costs borne by the nation for the foreign capital and technology have been heavy.

How far the pharmaceutical industry, given its present set-up, would be able to attain the national objective of self-sufficiency in drugs calls for a thorough study of the industry's technology, modifications of processes and efforts towards subsitution of imported raw materials. Measured by the present trends in R and D investments, the industry is not geared to any major innovation in the near future.

I

History and Growth

THE term 'pharmaceutical industry' connotes that sector of the drug industry in India which supports the practice of the allopathic system of medicine. The indigenous systems of Ayurveda, Siddha and Unani in existence for centuries continue to flourish, being accepted by the people and recognised by the government. The allopathic system essentially is an import by the British. The British set up a teaching institution at Calcutta in 1835 to train medical practitioners. The pharmacopeas and *materia medicas* of those days contained mainly galenicals and inorganic chemical preparations; the raw materials Cinchana bark, Nux Vomica seeds, Poppy pods, etc, were shipped from India to England and returned as extracts or tinctures for the physicians' use. At the turn of the century, in 1901, Acharya P C Ray with great foresight and pioneering spirit started the first Indian-owned drug factory, the Bengal Chemical and Pharmaceutical Works on the outskirts of Calcutta.

By this time, Louis Pasteur (1822-1895) had identified pathogenic bacteria as the cause of many infectious diseases and showed the possibility of prophylaxis through immunisation. Soon many eminent British medical scientists came to India to study tropical infectious diseases which were taking quite a toll of their armies. The early state enterprises in pharmaceuticals were established by them. Haffkine Institute at Bombay (1904), King Institute of Preventive Medicine at Madras (1904), Pasteur Institute at Coonoor (1907) and the Central Research Institute at Kasauli (1905) were the legacy to this nation from those devoted workers. Identification of anopheles mosquito as a vector of malaria by Ronald Ross and the vector of Kala-azar by Shovt and Swaminathan were some of the important contributions, in addition to the production of sera and vaccines used to control the epidemics of cholera, small pox and typhoid ravaging the country at that time.

By World War I, the foundations of chemotherapy or use of chemicals in treatment of diseases had been laid by Paul Ehrlich. The active ingredients of some of the crude plant extracts, *viz*, alkaloids, were identified. The organic chemists had started synthesising the active constituents and studying their action. Aspirin, Acetanilide, barbital and adrenaline came into use.

But upto 1939, that is the beginning of World War II, England kept this nation as its exclusive preserve for unloading the products of its drug industry. Most of the British manufacturers opened branches in India or marketed their products through British trading companies established here. A few Indian enterprises had come up but did not make any significant impact. The general scarcity of imported medicaments during the War years gave rise to a number of small manufacturing units producing distilled water, normal saline and such essential simple preparations; a few other firms started tableting and making formulations, which found a ready market.

The period 1940-55 saw a remarkable rate of discoveries in the pharmaceutical sciences and growth in the world industry. The sulphonamides, penicillins, streptomycin, tetracyclines, cortico-steroids and many other new drugs were introduced in this period by the US and Swiss manufacturing units, which escaped the ravages of World War II. In India, with the advent of Independence, more foreign pharmaceutical firms started trading operations and some of them started bulk import of final products and producing tablets, capsules, syrups and other formulations. A number of indigenous concerns which started as ayurvedic manufacturers entered the scene with proprietary preparations like tonics, cough syrups and protein foods.

The government was striving to get an orderly growth of the pharmaceutical industry. The Drugs Act of 1940 was enacted and rules were laid down in 1945 and 1948 authorising the states to enforce drug standards control. The Central Drugs Laboratory was set up in Calcutta in 1950 as the appellate authority for drug standards control. The Central Drug Research Institute was started at Lucknow in 1952 for stimulating research and development activities in this field.

The Industrial Policy Resolution of 1956 grouped the pharmaceutical industry in the category where both State and private industry could operate. The Indian Penicillin Committee, set up in 1951 at the Haffkine Institute, marked the beginning of government entry into the industry and a public sector enterprise, Hindustan Antibiotics, was established in 1954.

By this time, most of the foreign trading companies had themselves incorporated as Indian subsidiaries. Due to the stringency of foreign exchange, government encouraged enterprises with minority foreign capital participation and financial-cum-technical collaboration arrangements with existing or new Indian ventures, with payments for plant and machinery taking the form of allotment of equity to the foreign partner.



In 1958, government entered into an agreement with the USSR for manufacture of antibiotics, synthetic drugs and surgical equipment with an 80-million rouble loan and Soviet technical know-how. Another public enterprise, Hindustan Organic Chemicals in Maharashtra, also started producing basic chemicals about the same time.

II
Structure

In 1967, 2,349 firms were engaged in production of drugs and pharmaceuticals, but only 118 of these were registered with the Directorate General of Technical Development. Taken together these constitute what is known as the organised sector of the industry, responsible for about 80 per cent of the total production. Even among them, production of the basic pharmaceuticals (or ethical drugs) was confined to 77 units. As these firms provide the basic ingredients for the industry by local manufacture or import, the rest of the sector depends on them and any study of the Indian pharmaceutical industry can be confined to those firms which fall into four categories:

(i) The foreign subsidiaries. These are the predominant group, mostly trading branches of the parent multinational organisation converted into companies incorporated in India to satisfy government policies. These are with and without minority Indian equity participation, under total control of the parent firms.

(ii) The minority foreign participation companies. These are joint ventures of foreign pharmaceutical firms with Indian partners. Financial participation is in the form of equities, but majority holdings and control are in Indian hands.

(iii) Indian enterprises. These are with or without any foreign technical collaboration and without foreign financial participation.

(iv) Public sector undertakings.

The total investment in the Indian pharmaceutical industry is reported to be Rs 150 crores (1970) and is expected to grow to Rs 200 crores by 1972. The total production is rated at Rs 200 crores (1970) of which basic pharmaceuticals account for only Rs 25 crores, sufficient for formulated products worth Rs 125 crores.[1] A comparison with similar figures from other nations is given in Table 2.

The corresponding figures for India for 1965 are an investment of $ 100 mn and production worth $ 200 mn. While other nations produce goods worth about 15 to 50 times the investment, India produces just two times, suggesting very low efficiency of the Indian pharmaceutical industry. India's share of the total world production of pharmaceuticals is about 1.4 per cent (1967). Per capita annual consumption of pharmaceutical products is worth 40 US cents, compared to $ 20 in the US, $ 15 in Japan and $ 14 in Europe.

Pharmaceutical Industry in Relation to Chemicals Industry

Many of the multinational pharmaceutical companies had their beginning as dyestuff or organic chemical manufacturers in their parent countries. Subsequently they entered the pharmaceutical field, based on intermediate products and agricultural and veterinary products. The development of the organic and fine chemical industry has to precede the growth of the drug industry. The average share attributed to pharmaceutical production in the chemical sector in the 1960s for the European Economic Community countries, Norway, Poland, Sweden, USSR and USA was between 10 and 11 per cent.[2] The figures for some other countries are given in Table 3.

The pharmaceutical industry is disproportionately big relative to the chemical industry in Japan and India. In such circumstances, the chemical industry would be unable to meet the needs of the pharmaceutical industry and the latter would have to be based on imported intermediate chemicals. This is reflected in the negative trade balance for drug trade in Japan and India to the extent of $ 264 mn and $ 100 mn, respectively, in 1965. An examination of the production, import and export figures is revealing (Table 4).

As the import of formulations and finished products is strictly restrained, it can be assumed that the bulk of the imports would be basic ingredients, not produced in India. The production figures are for the finished products which would cost 5-10 times more than the basic ingredients. Progressive self-sufficiency of the industry would be seen in falling imports *vis-a-vis* production. The ratio of imports to production has not registered much change from 1963 to 1969 confirming that the industry is very much dependent on imported basic chemicals. Crude drugs form a considerable part of exports, about 36 per cent in 1966 as against 26 per cent of basic drugs and 33 per cent of formulations.

The reasons for this lopsided growth are not far to seek. The average profit on investment in the basic chemical industry in India was 13 per cent (1963-64) while for pharmaceuticals this was nearly double, at 25.4 per cent. In recent years, pharmaceuticals showed a gross profit of 20.3 per cent (1968-69) and 23.4 per cent (1969-70) compared to other chemicals 9.6 per cent and 13.7 per cent, respectively.[3] The Drug-Prices Control Order of May 1970 has put a ceiling at 15 per cent gross profit for pharmaceutical firms, but most of the foreign subsidiaries have recorded profits of over 20 per cent on last year's working. This has been explained in terms of their diversified production lines. The multinational drug companies operating in India have a variety of products other than drugs such as cosmetics (talcum powders, hair oils, after-shave lotions etc), toothpastes, tooth brushes, chewing gums, toilet soaps, nursing bottles, and so on, which are sold under high pressure sales techniques. The pharmaceutical industry, especially the foreign subsidiaries, are reluctant to invest in production of basic pharmaceuticals, but are eager to diversify production to low technology, low investment and high profit yielding consumer products. Diversification of production is an accepted practice in other countries as well. The tightening of drug safety evaluations, the increasing costs of clinical studies for obtaining necessary certification and the increasing cost of R and D have forced these firms to diversify production. But even then, leading companies like Pfizer in the US produce only about 18 per cent of consumer goods, the rest being made up of chemicals, insecticides and drugs. It would be interesting to collect data on the production of consumer goods other than drugs by the pharmaceutical industry.

III
Products

The basic pharmaceuticals manufactured in India are divided into 14 categories; (i) antibiotics; (ii) vitamins; (iii) hormones; (iv) anti-histamines; (v) tranquillisers; (vi) sulphas; (vii) anti-tubercular drugs; (viii) anaesthetics; (ix) hypoglycemic agents; (x) anti-malarials; (xi) anti-dysentery drugs; (xii) analgesics and anti-pyretics; (xiii) anti-leprosy drugs and (xiv) drugs of vegetable origin. The first five groups of compounds, where the technology of production is complex are manufactured with imported technology by foreign subsidiaries, joint ventures and by technical collaboration. The sulphas, anti-tubercular drugs, anaesthetics, intestinal drugs and

TABLE 1: INDIAN PHARMACEUTICAL INDUSTRY—SECTOR-WISE DISTRIBUTION OF UNITS AND CAPITAL

	No of Units	Capital (Rs crores)
(i) Foreign subsidiaries	27	33.20
(ii) Minority foreign holding companies	12	11.86
(iii) Indian enterprises	38	16.42
(iv) Public sector undertakings	2	26.72

Source: "Drug Prices and Cost of Production", *Economic Times*, November 15 and 16, 1971.

TABLE 2: INVESTMENT AND PRODUCTION IN THE PHARMACEUTICAL INDUSTRY

(mn $)

Country	Total Investment (1965)	Total Production (1965)
Belgium	4.0	70.0
Netherlands	9.9	129.7
Sweden	11.9	84.1
Spain	13.3	190.9
Italy	19.2	576.0
France	19.4	954.0
West Germany	69.1	906.5
Japan	76.0	947.5 (64)
USA	136.7	4386.0

Source: "Gaps in Technology: Pharmaceuticals", OECD, 1969.

TABLE 3: RELATIVE PROPORTION OF CHEMICAL AND PHARMACEUTICAL PRODUCTION, 1967

Country (1)	Pharmaceutical Production (mn $) (2)	Chemical Production (mn $) (3)	(2) as Per Cent of (3)
West Germany	1050	6985	15
UK	600	5990	10
Japan	1175	5159	22
India	233	930	25

Source: "Focus on Pharmaceuticals", OPPI, Bombay, 1967.

anti-malarials are produced both by indigenous and imported technology. The last two groups are mostly produced with indigenous technology.

The most recent discovery in the group of drugs produced in India belong to the antibiotics: erythromycin and kanamycin, which were discovered a decade ago. Out of 138 drugs listed as major pharmaceutical innovations from 1950-1967, only 20 are being manufactured in India at present. The majority of the compounds in production in India at present were commercialised prior to 1950 in the US and Europe.

IV
Technology

IMPORTED TECHNOLOGY IN PRIVATE SECTOR

Pharmaceutical production in India is broadly planned by the government and every project is rigidly controlled at every stage of licensing, import collaboration and execution. The product and process technology in the West are private assets and have been attempted to be transferred to India through private commercial enterprises like foreign subsidiaries, joint ventures and by pure technical collaboration arrangements as mentioned earlier, and also through public sector undertakings. From the socialist countries (mainly USSR) government has bought technology through inter-government contracts, with loan assistance for purchase of capital equipment as also technical assistance without any financial participation. The type of assets transferred are patented and unpatented knowhow, use of trade mark or brand name. These assets are paid for in foreign exchange, as (a) dividend on equity participation, if any; (b) interest on loans advanced; (c) royalty, payable annually as a percentage on sales or production, (d) technical fees for design and plant construction paid in lump, and (e) payment to foreign technicians. The Russian technology has been paid for by lump payment as technical fees.

Relevant data on the above payments for the pharmaceutical industry, compiled from a survey by the Reserve Bank of India, is given in Table 6. Total payments abroad for capital and technology in one year amounted to 16 per cent of the investments for the foreign subsidiaries. Payments to foreign personnel in Indian currency and their individual remittances abroad are not included. Considering that the products manufactured are more than 10-15 years old, the returns are highly attractive to the foreign investors. The usual argument, of a high price for research-intensive technology due to increasing R and D costs and risk rates, does not apply to these products manufactured in India, as no specific research is carried out for modifying or adapting the technology. The above costs can be called the direct or visible costs, as distinct from invisible costs incurred by the country, which are explained below.

The production of these companies is supported by imports of raw materials. Excluding items financed by foreign capital and foreign loans arranged by individual companies, the imports cost 9.5 per cent of the value of production for foreign subsidiaries, 12.5 per cent for minority ventures, and 5.4 per cent for technical collaborations. These imports would be basic chemicals and intermediates produced by the parent company or collaborating unit abroad, and are mostly priced very high.[4] The importer would not have the option of purchasing from a competitive market due to tie-in clauses in the foreign collaboration arrangements specifying such purchases as a pre-condition for local manufacture. This 'over pricing' would be an additional profit to the foreign parent or collaborating firm and an invisible cost to the Indian company.

IMPORTED TECHNOLOGY IN PUBLIC SECTOR

Imported technology has been operative in three public sector undertakings: Hindustan Antibiotics, Indian Drugs and Pharmaceuticals' Antibiotics Plant at Rishikesh, and Synthetic Drugs Plant at Hyderabad.

Hindustan Antibiotics had generated all its working capital from internal resources, and has an excellent record of working. In 1969-70, with an equity capital of Rs 2.47 crores, the Company had Rs 0.98 crores gross profits on a turnover of Rs 7.23 crores.[5] The Company had collaboration arrangements with Merck of USA, but the 1969-70 annual report of the Company has not recorded any payments for royalty or

TABLE 4: INDIAN PHARMACEUTICAL INDUSTRY—PRODUCTION, IMPORT AND EXPORT

	Production (1)	Import (2)	(2) as Per Cent of (1)	Export (Rs crores)
1963	100	9.22	9.2	1.24
1966	150	8.22	5.4	3.05
1969	190	17.5	9.02	5.03

Source: Compiled from data in "Indian Pharmaceutical Guide, 1971", Pamposh Publications, New Delhi.

technical fees. The Company had guaranteed export of Rs 30 lakhs worth of products, but as the international prices are lower than Indian prices, an export promotion reserve has been created. The imports have not been separately listed, but payments abroad seem to be low.

Both the units of Indian Drugs and Pharmaceuticals were incorporated in 1961. The paid up capital of the company in 1969-70 was Rs 24.25 crores and loan capital was Rs 50.69 crores. Neither unit has gone into full production so far. Plant and components have been imported from Russia paid from a Russian loan. There does not appear to be any payment for technology, excepting the cost incurred on Russian technicians. Both units are working at a heavy loss (Rs 4.9 crores and Rs 3.4 crores for 1969-70).[6]

V
Adaptation of Imported Technology

One criterion for measuring the adaptation of imported technology would be the progressively quicker introduction of products of foreign technology; in other words, the time lag between the introduction of a new drug in the developed countries and India should gradually shorten. This would be an exact measure, provided patents are inoperative; otherwise, it is only a gross or inexact measure. Three categories of products — sulpha drugs, antibiotics, and cortico-steroids — have been examined from this viewpoint (Table 7).

Two independent units were producing a few of the early sulphas in small quantities from locally available raw materials,[7] when in 1955 foreign subsidiaries started production in large quantities from an imported penultimate compound. The early sulphas, sulphathiazole and sulpha pyridine, are now obsolete in the US and have been replaced by sulphisoxazole, with less side reaction. This and sulphamethoxy pyridazine, a long-acting sulpha, are the recent modifications, which have not been produced in India so far. Abroad, antibiotics have replaced sulphas to a great extent, but cheaper sulphas should still prove attractive to nations like India. Compounds structurally similar to sulphas but with different pharmacological action like Acetazolamide, Tolubutamide, and chloropropamide, are also being manufactured in India. In the case of sulphas, imported technology entered the arena against independent indigenous knowhow. The latter has grown gradually, taking up independent production of chloropropamide and acetazolamide. The basic ingredient, acetanilide, has also been made available. But imported technology has not contributed to the growth, as is indicated by the long delays in introducing the newer drugs marketed abroad.

In the field of antibiotics, a good number are being produced in India. Penicillins G and V are being produced, but the newer orally effective semi-synthetic penicillins have not been taken up for production. Hindustan Antibiotics are awaiting clearance of a technical collaboration for the same with American Home Products, even though the parent moiety 6-APA has been successfully produced in their laboratory. A certain amount of transplant of technology has definitely occurred in the public sector as evidenced by its ability to bring out a few new antibiotic fungal agents, like Aureofungin and Hamycin; but it has not been able to update the penicillin production technology to the same level as the foreign firms. In the private sector, the production of antibiotics has been taken up by a number of companies, and most of the new products are manufactured by fresh collaboration agreements for each product and not by improvising the already imported technology. The existence of a healthy, growing, public sector enterprise in antibiotics production has given a fillip to the growth of companies producing these drugs in the private sector.

In the manufacture of cortico-steroids, only foreign subsidiaries have been active. It is claimed that, recently, processes have been developed to switch over production from imported raw material, Hecogenin, to locally available Diosgenin. The gap of a decade that existed at the start has been now shortened in this group of drugs for production in India.

VI
Research and Development

Imported technology would have to be supported by indigenous R and D from the very beginning, to enable it to adapt to the new environs. The initial attention would be on stabilisation of products liable to rapid deterioration in the tropics, improved packaging to counter the weather, etc. In the next stage, process modification to utilise local raw materials, or more economic production methods to cut down the cost, would receive attention. In the third phase, the industry should develop the ability to manufacture better products to market outside or compete with the advanced technology with its own knowhow. The final phase is marked by an independent capacity for innovative products. As a significant contribution from R and D is essential in each of these stages, the investment in R and D by the Indian pharmaceutical industry is another measure in its desire to adapt imported technology and make further use of it. Table 8 is self explanatory.

Japan has been able to absorb and assimilate the imported technology very well, and this has been achieved by a high investment on R and D. The average R and D cost for adapting a unit of foreign technology has been reported to be higher than that of developing a unit of indigenous technology in Japan,[8] emphasising the need for continuous investment in R and D.

The low spending on R and D by the industry could be (i) due to incapacity to invest in R and D owing to the small size of the firm; (ii) due to the parent firm carrying on all the R and D activities. A survey by the CSIR reported that only companies with a turnover of Rs 50 lakhs and above found it economical to invest in R and D. The second factor, the reluctance of foreign subsidiaries to invest in R and D outside the parent country is evident from the figures, for instance, reported for the US pharmaceutical industry. The industry has 91 research establishments employing 16,530 at an estimated expenditure of $ 304.1 million within continental US as against 35 facilities employing 2,085 and spending $ 24.5

TABLE 5: TYPE OF ASSETS TRANSFERRED TO THE INDIAN PHARMACEUTICAL INDUSTRY FROM ABROAD

	PTK	PT	PK	TK	P	T	K	Total
(1) Through subsidiaries	7	1		5				13
(2) Through minority participation	2	2		5		1	6	16
(3) Through technical collaboration	2				1			3

P=Patents; T=Trade Mark; K=Knowhow.
Note: From USSR, asset transferred was mainly knowhow.
Source: Compiled from RBI Survey, "Foreign Collaboration in Indian Industry", 1968.

TABLE 6: PAYMENTS FOR FOREIGN CAPITAL AND TECHNOLOGY IN 1963-64

(Amounts in Rs crores)

	Foreign Subsidiaries	Units with Minority Foreign Capital Participation	Units with Technical Collaboration
(1) No of companies studied	20	16	3
(2) Total capital	11.1	6.2	1.9
(3) Shares held abroad	9.4	2.1	Nil
(4) Dividend remitted abroad	1.61	0.08	Nil
(5) Interest on foreign loans remitted abroad	0.07	Nil	Nil
(6) Royalty and technical fee remittances	0.19	Nil	0.44
(7) Total remittances abroad	1.87	0.08	0.44
(8) Value of imports	3.8	1.8	0.7
(9) Value of total production	39.4	14.1	12.8

Source: Compiled from RBI Survey, "Foreign Collaboration in Indian Industry", 1968.

million outside the US.[9]

The overseas R and D establishments of the US pharmaceutical industry are small, with lesser personnel and lesser investment; and the more undeveloped the territory, the more the gap in personnel and investment. At best, these laboratories appear to be token in nature, probably like 'after-sales-service' units, to look into complaints, and for information dissemination, market research, and quality control work. Meaningful contribution by way of transfer of technology to the drug industry from these laboratories is hard to conceive.

The cost of producing a new drug has been estimated to be $3 to 7 million. The figures may hold good for the US and is very much dependent on the state of technology. According to a report from OECD, referred to earlier, a research set-up of 50-100 employees with a minimum budget $500,000 per annum (based on average cost of $ 8,000 per scientist per year) would be the least needed for producing any tangible result. If 10 per cent of the turnover is the outlay on R and D, the company should have a turnover of $5 million or about Rs 4 crores. But of 42 companies in India, in the earlier mentioned CSIR survey, only 8 had sales of this magnitude, and their research outlay in 1967 averaged only about 1.2 per cent of sales. There is only one foreign subsidiary firm, which has set up a well-integrated multi-disciplinary research and development organisation. The turnover in India for this company is less than $ 1.3 million; and this R and D investment definitely is not an integrated component of the activity of the Indian subsidiary. Exclusive of this, the R and D effort of Indian pharmaceutical industry in the private sector is not on a scale for the nation to expect innovations or new drugs, by means of organised and planned research.

VII

Factors Impeding Assimilation of Imported Technology

If the Indian pharmaceutical industry is incapable of bringing forth a new drug, it would be interesting to see whether it would be able at least to keep up with the advances elsewhere. A few dominant factors impeding this process may also be observed.

(a) *Lack of specialisation*: The foreign pharmaceutical firms, by and large, concentrate on certain specialised product lines, e g, cortico-steroids (Merck Sharp and Dohme, Organon, Syntex), penicillin (Glaxo, Beecham), streptomycin, tetracyclines (Squibb, Lederle, Pfizer), anti-infectives (Ciba, May and Baker, tranquillisers (Smith Kline and French, Sandoz) etc. This is not a rigidly enforced system, but a pattern born out of R and D efforts and specialists employed. The technology of microbial fermentation to produce antibiotics is so different from the production of a cortico-steroid from plant products or search for an effective anti-psychotic. The intensive specialisation called for in a successful drug research programme, tends to require concentration in narrow divisions, and is apparent in production as well. As the years go by, each one of these firms accumulate vast unpublished knowledge in the field, which a new entrant will not be able to acquire quickly. Business ethics and fright of infringing patent laws (which if proven is tremendously expensive) also, help to keep them from grossly encroaching on other specialised areas. As introduction of newer drugs is getting more difficult because of a lack of understanding of the basic mechanisms of the human system, the tendency towards this specialisation is increasing all the more. Concerted research, with a fair amount of resources and manpower in a small area only, would pay dividends.

But the situation in India is very different. The foreign subsidiaries operating conform to the production lines of their parent organisations. But minority participation ventures, collaborating concerns, and independents, put out a variety of products — widely divergent chemically and pharmacologically. These products do have some features in common — they are fast-moving, have a high demand in the market, and hold an assured high and quick profit. Each one of these products comes out of a separate collaboration arrangement, many a time with different units abroad. The rationale of introducing new product rarely appears to be based on their own R and D programmes, but probably from market survey and demand. In India, none of these manufacturing units seems to be specialising in any particular group of drugs (excepting Hindustan Antibiotics), as would enable them to venture on long range manufacturing plans based on indigenous research.

TABLE 7: TIME LAPSE IN PRODUCTION OF DRUGS

	Year of Production Abroad	Approximate Year of Production in India
(I) Sulpha drugs		
Sulphamilamide	1935	1953
Sulphapyridine	1938	1955
Sulphathiazole	1939	1955
Sulphadiazine	1940	1955
Succinyl Sylphathiazole	1942	1955
Sulphacetamide	1942	1953
Phthalyl Sulphathiazole	1944	1955
Sulphisoxazole	1946	not produced
Sulphamethoxy Pyridazine	1957	—do—
Structurally related compounds		
Probenccid	1951	not produced
Acetazolamide	1956	1962
Tolubutamide	1956	1960
Chloropropamide	1958	1960
Furosemide	1966	not produced
(II) Antibiotics		
Penicillin 6 large-scale production	1941 1945	1955
Phenoxy Methyl Penicillin	1953	1960
Phenethicilin	1960	not produced
Methicillin	1960	—do—
Ampicillin	1961	not produced
Oxacillin	1963	—do—
Cephalotin	1961	—do—
Streptomycin	1947	1963
Dihydrostreptomycin	1947	1963
Evy-thromycin	1952	1968
Kanamycin	1957	1969
Chloramphenicol	1948	1957
7 Chloro tetracycline (aureomycin)	1948	1955
Oxytetracycline (tetramycin)	1950	1960
Tetracycline (Actromycin)	1952	1955
6 Methyl 7 Chlorotetracycline (Declomycin)	1959	not produced
(III) Cortico-steroids		
Cortisol	1949	1960
Cortisone	1949	1960
Prednisolone	1956	1963
Prednisone	1956	1963
Triamcinoline	1958	not produced
Paramethasone	1959	—do—
Beta methasane	1960	—do—
Dexamethasane	1959	—do—

Hindustan Antibiotics, which is concerned exclusively with the manufacture and development of antibiotics and other products by fermentation technology, has produced comparatively encouraging results. This has been possible because (i) the company has consistently invested 2 per cent of its sales on R and D, and (ii) has concentrated on microbiological methods of production or industrial fermentation technology. Two new antifungal antibiotics, Hamycin and Aureofungin, have been developed and marketed by the enterprise, probably the lone cases of an innovation from indigenous R and D to the world pharmaceutical industry. The products have been licensed for production in the US, bringing a small royalty for the company. Production of Vitamin C and Neomycin also have been developed out of its own R and D work. These achievements indicate that specialisation does bring in returns.

(b) *The patent laws and patent cracking*: There has been a serious controversy in India on the system of patents. Section 83 of the Patent Act, 1970, contends that "Patents are to encourage inventions and to secure that inventions are worked in India on a commercial scale to the fullest extent practicable without undue delay". The new Act, modifying the Patents and Design Act of 1911, allows only process patent for drugs, restricted to a single method or process of manufacture, limits the duration to seven years, and allows government unrestricted use of patents, if need arises.

In the US, UK, and Belgium, both product and process patents are allowed; but in the UK, product patent may be refused, if the drug has one ingredient only. The general patent law in France protects processes only, but special legislation provides for product protection. In Austria, Japan, Netherlands, Sweden, and West Germany, only process patents are allowed. Italy is one country without patent rights and the impact of this on the cost of drugs is apparent from Table 9. One cannot but agree that abrogation of patents, at least selectively, would be beneficial to the people.

Table 5, which gives the type of assets transferred to Indian industry from abroad shows that out of 32 cases studied, only four were exclusively for patents and trade mark, 27 cases had unpatented knowhow transmitted from abroad. This is essentially because process patents lead to unnecessary disclosure of information and, as infringements of processes are very difficult to prove, production techniques are kept secret. But product patents give a monopoly right, in spite of the disclosure.

An effective method, for quicker production of drugs at lesser cost, would be to start work on patent expiring drugs. Study of the production of process patented drugs by alternative methods and patent-cracking of items not patented in India, would also be very helpful, as it would be less expensive than producing a new drug — for which the Indian industry has doubtful capability. But subsidiaries of multinational firms incorporated in countries having patent laws, would not be interested in this work, as it would mean a breaking of codes of law and convention abided by with the parent organisations. Positive initiative for this may have to come from national research laboratories and government institutions.

The new drugs, in future, are bound to be more expensive, being the result of higher R and D investment. Government would be the biggest customer of this consumer product, through state-aided hospital and health programmes. Work on the technology of producing patent-expired and old proven drugs may not be attractive to scientists, as they would not be working on the new frontiers of science; yet to a developing society, this would be more rewarding than a large investment in the search for an anti-cancer drug or anti-lukaemia drug.

(c) *Lack of interaction of academic and industrial sectors*: Academic research and pharmaceutical industrial research in India are isolated from each other. Academic scientists engaged in research on problems referred to them by the pharmaceutical industry or working as consultants to the industry are scarce. Financial investment in academic research by the industry, by referred projects and contracts, is also negligible. In the US, the drug industry provides $ 23 million to academic institutions and $ 21.0 million to medical practitioners and consultants, while in the UK this was £ 369,000 and £ 512,400, respectively.

The absence of this interchange may be due to (a) the lack of problems for the industry to so refer, since it manufactures and markets products which have been in circulation for a long time in the developed countries and has no interest in producing new items in India, and (b) lack of faith in the ability of academic scientists to solve industrial problems.

This is an area, in which Indian entrepreneurs in the drug industry can

TABLE 8: R AND D INVESTMENT IN PHARMACEUTICAL INDUSTRY

Country	R and D Investment in US $ (millions)	Percentage of National Turnover in Drugs	Per Capita Investment in US $
Belgium	5.2 (65)**		0.55
Canada	4.56 (63)		
France	28.42 (65)	6.7	0.58
West Germany	40.00 (64)	7 (10-12 per cent for research intensive firms)	0.69
Italy	15.00 (65)	6	0.29
Japan	3.69 (64)	3.99	0.38
Netherlands	9.03 (64)	7.10	0.74
Sweden	10.8 (65)	11.7	1.30
UK	32.50 (65)	8.6	0.59
US	365.00 (65)	10	1.87
Switzerland	20.00 (67)	—	5.00
India*	3.3 (67)	1.1	Negligible

* 'Research and Development in Indian Drugs and Pharmaceutical Industry', A Rahman, *et al*, *Lok Udyog*, July-August 1970.

** Figures in brackets denote the year.

Source: Compiled from 'Gaps in Technology—Pharmaceuticals', OECD.

TABLE 9: DRUG PRICE COMPARISON

The cost of drugs in Colombia, South America purchased from multinational firms and others, mainly Italian, firms.

Chemical Name	Trade Name	Price per Kilo in $ US	
		Multinational	Others (Italian firms)
Chlorodizepoxide	Librium	1250.00	18.90- 20.00
Diazepan	Valium	2500.00	30.00- 45.55
Sulphafurazol	Oantricin	35.00) 15.00)	7.20- 8.75
Nitrazepan	Nogadon	2088.00	108.70
Ampicillin	Pentrexil	420.00	162.50-200.00
Tetracilin Base	Bristacicilna	110.00	23.50- 26.00
Erythroomycin	Ilosone	275.56	100-145.50
Promethacin	Deinal	140.00	17.75- 21.00
Indomethacin	Indocid	320.00	72.50-110.00
Metvenidiazol	Flagil	38.00	11.15- 14.80
Acetazolamide	Diamox	53.00	13.50- 16.85
Tolubutamide	Rastinon	28.00	2.40- 3.20
Furosomide	Lasix	1177.00	77.00-100.00
Chloramphenicol	Chloromycetin	80.00	13.00- 15.95

Source: "Transfer of Resources and Preservation of Monopoly Rents", C V Vaitsos; Harvard University (1970). (Data gathered for the Columbian Government.)

show some initiative. Considerable exchange has occurred in other fields, such as the dyes and intermediate industry, where the Department of Chemical Technology of the University of Bombay and the staff have worked in close collaboration with the industry. Academic institutions near the centres of the drug industry, such as Bombay, Baroda, Calcutta, and Hyderabad, could start courses in pharmaceutical technology and encourage the faculty to have interrelations with the scientists and technologists of the industry.

VIII

Development of Indigenous Technology

The bulk of the investment in indigenous technology development has come from the Government. The Central Drug Research Institute and the Central Indian Medicinal Plants Organisation, are two units exclusively charged with the work. The National Chemical Laboratory and Regional Research Laboratories also help in all work on production of basic intermediates. Overall contribution has been extremely small; the processes for some well known drugs and intermediates have been worked out by these laboratories, and production has been undertaken by the industry. But no new drug has emerged from the work of these laboratories in the last 20 years.

Realising that the commercial utilisation of laboratory research needed special support, the National Research and Development Corporation was set up in 1954 (on the lines of the establishment in the UK) to spot out and finance commercially worthy projects. The Government provided capital for the organisation and its income was to be derived from licensing and royalty fees. With a total working fund of Rs 83 lakhs (Rs 44 lakhs share capital and Rs 39 lakhs loan) in 1969-70, the Corporation has accumulated a total loss of Rs 36 lakhs over 16 years. It has sponsored not more than 3 projects in pharmaceutical development. The limited activity of the NRDC reflects the lack of sufficient process development work and also the inability to give selective support for commercially feasible projects.

Discovery of new drugs by indigenous research is not a necessary requisite for a flourishing pharmaceutical industry, as may be seen from the statistics in Table 10.

Russia and the East European countries, and Japan, occupying second and third places respectively in drug production have made an insignificant contribution to drug discoveries; so also Italy, which has the sixth largest drug industry. Russia and Japan are totally independent of any foreign nation for drug production; obviously, these nations have been producing drugs discovered elsewhere, by adapting them with indigenous research and development. Russia is not restricted by the provisions of the patent legislations, nor is there any transfer of technology to Russia through commercial channels from outside.

IX

Factors Impeding Growth of Industry by Indigenous Research

The well-worn cliche of 'multi-disciplinary approach' would not suffer by repetition with respect to drug research. There is virtually little in the development of a drug which can be achieved by a chemist, biochemist, or pharmacologist, working in isolation.

There are 20 universities in India running graduate-level courses in pharmaceutical chemistry with approximately 600 seats at the graduate level and 90 seats at the post-graduate level. The curriculum offered emphasises the theoretical and analytical aspects overlooking 'production technology'. The courses appear as drawn out to provide the right type of people for government work, i e, drug standards control, and not for the industry. The courses in chemical technology touch on pharmaceutical technology only in passing, and

TABLE 10: PHARMACEUTICAL PRODUCTION AND DRUG DISCOVERY

	World Ranking in Pharmaceutical Production according to Worth, in US $ Millions (1967)	Number of Discoveries among World's Top Marketed 138 Drugs, 1952-1967.
US	4500(1)	67
Eastern Europe and Russia	1900(2)	Nil
Japan	1600(3)	1
France	850(4)	11
West Germany	850(4)	15
Italy	640 (1966)(5)	1
UK	600(6)	10

Source: Compiled from data in "Gaps in Technology — Pharmaceuticals", OECD, 1969.

there is no university offering courses exclusively in pharmaceutical technology — though in many other fields such as textiles, leather, food, sugar, etc, separate courses of academic instruction are offered.

As regards the other specialists needed for drug development, the non-clinical pharmacologists needed to carry out the initial studies on experimental animals are extremely scarce. Post-graduate level courses in pharmacology were till very recently open to only medical graduates, and those who qualified moved to clinical pharmacology and teaching, because of the low level of expenditure on medical research in India. Toxicology, which is an equally important branch, is given little importance in the medical curriculum and is clubbed with forensic medicine. Modern toxicology is not offered as an academic course in any university, even though institutes for industrial toxicology and medical toxicology have been functioning for some time.

The situation is the same in industrial microbiology education. Microbial fermentation has been established as an economical method of production for most antibiotics, vitamins, and a number of other drugs. Specialisation in microbiology, offered in most of the institutions, is slanted heavily towards medical microbiology. Fermentation technology is imparted as an academic course at only one institution. The country may have a surplus of qualified scientists and engineers, but the right type of people for specialised jobs are often scarce.

X

Inferences

(i) The ultimate objective of a national drug industry should be to make available to its population drugs for all major scourges at economical costs, irrespective of whether the government or individuals bear the cost. Necessarily, therefore, any drugs development plan should take into consideration the major diseases afflicting the people. Compilation of hospital treatment statistics from urban and rural India and the categorised sale of drugs would give a clue to the immediate needs of the nation.

The diseases can be classified broadly into (a) infectious, (b) psychic, (c) somatic, and (d) psychosomatic. The first category, appearing as epidemics, should get primary attention in India. The drugs to combat infectious diseases can be further divided into prophylactics such as vaccines and sera and therapeutic agents. Substantial progress has been made in the study of these drugs, and the emphasis should be on attaining self-sufficiency in these categories of drugs in the first phase. The other group of drugs to alleviate psychic and psychosomatic illnesses also need attention, but development of any new drug in this class would involve a heavier investment, because the aetiology of these diseases are unknown and are intimately connected with physiological changes of the individual under environmental stresses and changes. An exhaustive study of the plans formulated by the Drugs Development Council and accepted by the Government for the drug industry in the above perspective, with its achievements and shortfalls, would be highly helpful in further planning.

(ii) Though there are a large number of drug manufacturing units in India, the core of the industry is dominated by multinational firms operating as Indian subsidiaries, and firms with a certain amount of foreign financial or technical participation. These greatly depend on imported technology and imported raw materials for production. As a whole, the industry is far less productive than in other countries — gauged from the investment to production ratio. The majority of the products are 10 years, or more, old and the technology cannot be termed 'advanced' by Western standards. The visible and invisible costs borne by the nation for the foreign capital and technology have been heavy. How far the pharmaceutical industry with the present set-up would be able to attain the national objective of self-sufficiency in drugs would need a thorough study of the technology, modifications of processes, and efforts towards import substitution of raw materials. Measured by the present trends in R and D investments, the pharmaceutical industry in India is not geared to any major innovation in the near future.

(iii) The interests of the multinational firms, who control the core of drug production, appear to be in conflict with the national objective of providing drugs at low cost to the millions, as evidenced by the recent tangle with the government on drug price fixation. The higher cost of drugs in India appears to be due to high cost of imported raw material, less efficient processes, and high managerial expenditure, advertisement costs and profits. R and D costs being insignificant do not increase the cost of drugs in India. These factors should be deeply examined to enable a fair price fixation. The data would be hard to collect without government pursuasion. The disparities in the range of products of the parent firms abroad and their subsidiaries in India would reveal a lack of desire to transfer advanced technology to India. The proportion of basic drugs, formulations and consumer items other than drugs in the annual turnover of individual firms would also be highly indicative of their objective. Canalisation of raw material imports through state trading organisations would check the drain of foreign exchange though 'over-invoicing', and their exploration of international markets may bring down costs on this account.

(iv) The government laboratories and government sponsored research institutions will have to give the lead to the nation's drug industry. They will have to support the smaller Indian manufacturers who are incapable of substantial investment in R and D. Quality control is costly but essential, which can also be taken care of by paid service from well-equipped government institutions, attending to the needs of a number of small units in a region.

Patents should be used rather as a source of information than as a way to monopoly preservation. As a large majority of drugs marketed in this country are patent-expired, the information from the patents can be made use of by the government laboratories in process

development work — in which a beginning has already been made. A survey of availability and utilisation of patents which have expired, would be necessary. Enforcement of the legislation of the Patent Act of 1970, wherein only process patents are allowed on drugs would be very helpful to the Indian drug industry.

The per capita consumption of drugs in India, by Western standards, is very low. As this nation has to counter more diseases than the developed countries, this could only mean that the people depend to only limited extent on the Western system of medicine and take recourse to indigenous systems. The Ayurvedic Pharma-Copia Committee, set up by the Government of India, reported that 256 units were producing drugs worth Rs 15 crores per annum in this sector in 1965. These are based entirely on indigenous raw material and knowhow and are available to the consumer at a comparatively lower cost. The very fact that, after more than a century, the Western system of medicine has not been able to obliterate the indigenous systems in spite of heavy support, clearly shows the efficacy of the indigenous systems, at least in certain diseases. Serious attempts should be made to introduce quality control and standardisation of indigenous drugs, which alone will make them more acceptable to the people. A study of the degree of modernisation of production in this sector is needed.

Notes

1 "Indian Pharmaceutical Guide, 1971", Pamposh Publications, New Delhi.
2 "Establishment of Pharmaceutical Industries in Developing Countries', UNIDO, ID/35, 1970.
3 "Survey of Chemical Industry", *Economic Times*, September 16, 1971.
4 This practice of 'over pricing' has been dealt with in "Transfer of Resources and Preservation of Monopoly Rents" C V Vaitsos, Harvard University (1970).
5 Annual Report for 1969-70, Hindustan Antibiotics.
6 Annual Report for 1969-70, Indian Drugs and Pharmaceuticals.
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8 "Report on Japan's Transfer of Technology to Developing Countries", T Ozawa, UNITAR 1970.
9 "Technology Transfer in Pharmaceutical Industry", UNITAR Report Number 14.



Employers' Organisations in India

K C Alexander

Employers and their organisations are an important component of the industrial relations system of any modern society.

However, while labourers and their organisations have attracted wide attention, employers and their activities have failed to attract similar attention both from scholars and laity alike.

One of the results of this lack of interest is the relative lack of studies and literature on any aspect of employers' organisations, in spite of their history extending beyond a century.

DATA for the present study was collected from the records and reports on the subject available at the library of the Federation of Indian Chambers of Commerce and Industry, New Delhi, Employers Federation of India, Bombay, Associated Chambers of Commerce of India, Calcutta, and the All-India Manufacturers' Organisation, New Delhi, apart from discussions with a number of persons associated with these bodies. Information was also collected by sending a semi-structured questionnaire to about 1,100 employers' organisations — local, regional and national chambers of commerce, specific industrial and trade associations, etc — which could be identified. Of these, information was obtained from 517 organisations which returned the completed questionnaires.

The First Chamber

The first chamber of commerce, the Calcutta Chamber of Commerce, was started by English businessmen at Calcutta, the then political and commercial metropolis of the British empire in India, in 1833. The immediate stimulus for this was provided by the revision of the charter of the English East India Company, and the opening of trade with India to all Englishmen. This sudden expansion in the commercial interests along with the disappearance of the protective arm of the big brother, the East India Company, goaded the British Commercial interests to organise themselves. The purposes for which the Chamber was formed were "to watch over and protect the general interests of Commerce; to collect information on all matters of interest to the Mercantile Community; to use every means in its power for the removal of evils, the redressal of grievances, and the promotion of the common good; to communicate with authorities and with individual parties thereupon; to form a code of practice whereby the transaction of business may be simplified and facilitated; to receive references and to arbitrate between disputants".[1] Even though the Calcutta Chamber was formed under the leadership of British businessmen, it was not an exclusively British or European organisation, but among its original membership of business firms and individuals, numbering 104, there were a few Indian firms also.[2]

The place of the Calcutta Chamber of Commerce was taken over by the Bengal Chamber of Commerce in 1853. Even though some authors on employers' organisations like Namjoshi suggest a continuity in the existence of the two bodies, Geoffrey W Tyson, the official historian of the Bengal Chamber of Commerce writes on this point as follows: "Some scattered notes were compiled in the mid-nineteen thirties which rather seek to imply that the Bengal Chamber enjoyed a continuity of existence from 1834, but there is no real warrant for such a contention...".[3]

Growth of European Business

Following Calcutta's lead, chambers were organised by Englishmen at Bombay and Madras in 1836. However, after this initial stir almost for two decades hardly any chamber came into existence, and it was only after further spread of European trade and commerce into other port cities and the hinterland (facilitated by the spread of railways) that more chambers were formed. "The extension of European business in India led to the growth of such chambers in other parts of the country to protect their interests and safeguard their rights. Thus were established the Burma Chamber in 1858, the Cochin Chamber in 1857, the Karachi Chamber in 1857."[4] Even by the latter period European commerce in upper India had not grown in importance sufficiently to necessitate the formation of a representative body to safeguard its interest. "For several years after the commercial and industrial growth of Cawnpore had commenced, there appeared to be no imperative necessity for combination in the direction of protecting or advancing the general interests of the young undertakings of Cawnpore, but towards the close of the eighties, there were indications that an association to watch the growing commercial interests of the city was necessary."[5] For this purpose, the Upper India Chamber of Commerce was formed in 1888.

It took almost half a century after the formation of the first British Chamber in Calcutta for the Indians to organise a chamber of their own. This long interval is explained as follows by the Bengal National Chamber of Commerce: "This fact, that, during this long interval, there was in the whole of India no organisation of the Indian mercantile community entitled to speak in its name and capable of taking concerted action in the furtherance of its interests may indeed appear surprising to the present generation of Indian businessmen. One cannot however, run away from the fact that the conditions which characterised the political condition of the country at the time were equally over-shadowing the commercial field. An additional reason for this long interval is the comparatively small part played by the latter (Indian businessmen) upto the early part of the nineteenth century. There were indeed eminent businessmen in those days... Nevertheless, there were not many like them and the need for organised commercial opinion for protecting the interests of Indian traders and seeking redressal of their grievances was not so keenly felt at that time."[6] Another reason probably was that membership in British chambers was open to Indians also.

First Indian Chamber

The formation of the National Congress in 1885 is, of course, a landmark in the growth of political consciousness among Indians. In the economic sphere, the American Civil War and the resultant cotton boom of the eighteen sixties brought in a colossal influx of wealth into India and stimulated investment and commercial activities. In Calcutta, Indian businessmen started entering commerce. "Though comparatively small in number, a few Indian businessmen also began to take, in the meantime, some interest

in industrial enterprises. Prince Dwarakanath Tagore was one of the first Indians to engage in coal industry... In Northern Bengal, the first Tea Garden under Indian management was started in 1879... By 1895 there were 182 Tea Gardens in this area, out of which eleven belonged to 'native' agencies."[7] There was a lot of resentment among the Indian business community against the discriminatory policies pursued by the British government. In such circumstances it was only natural that Indians formed organisations to safeguard their interests. Thus, the first Indian chamber of commerce, the Native Merchants' Chamber of Coconada, was set up at Coconada, Andhra, in 1885. Two years later, the Bengal National Chamber of Commerce and Industry was established at Calcutta.[8]

Nationalist Fervour

Some of the leading spirits behind the formulation of the Bengal National Chamber were Babu Chandulal Singha, Raja Janokinath Roy, Rai Bahadur Sita Nath Roy, etc, and the nationalist spirit in which the Chamber was started was reflected in the close association of the Chamber with the Indian National Congress in those days. The constitution of the Chamber was prepared by A O Hume and W C Banerjee, the founders of the Congress. Prominent Congressmen like Surendra Nath Banerji were elected honorary members of the Chamber. On the other hand, the Chamber was requested to depute some delegates to represent it at the third session of the Congress.[9] Another indication of its nationalist fervour is the qualification it laid down for membership, *viz*, that "in case of a firm, not less than one-half of the property interest thereof is represented by an Indian or Indians, and in the case of joint-stock companies or corporations, no less than one-half of the capital is owned by Indians."[10]

The Bengal National Chamber was secular in outlook, and there was no caste or religion behind it. This was not true of all the chambers, and sometimes communal, religious, or linguistic influences played their part in the organisation of trade associations. An early example of such an association formed on communal lines was the Marwari Chamber, Calcutta, organised in 1900, under the leadership of the Marwari Association formed in 1896. The first president of the Marwari Chamber of Commerce was Hafaramji Khema. In 1947 the name of the chamber was changed into Bharat Chamber of Commerce.

By the close of the nineteenth century factors like the depression of 1895-1900, imposition of excise duty on Indian made cotton cloth, etc, gave a spur to economic nationalism which found a rallying point in the "Swadeshi Movement" urging the boycott of foreign goods and the development of indigenous industries. "This economic awakening found a more lasting and tangible expression in the formation of the first Indian Chamber of Commerce outside Bengal, Till then, the opinion of the Indian Commercial Community in such leading trade centres like Bombay and Madras went largely by default and the views of the European organisations were taken as representative of the views of the whole commercial community. The formation of the Indian Merchants' Chamber and Bureau, Bombay, and the South Indian Chamber of Commerce, Madras, in 1907, and 1909, respectively, was intended to remedy these conditions."[11] Describing the circumstances which led to the organisation of the South Indian Chamber of Commerce, its historian says "while the European Commercial Community had organisation to influence policy, the Indian Community lacked the power and instrument to express its views. So there was real need for an organisation to plead and protest whenever necessary."[12] Some of the pioneers of this chamber were P Theyagaraya Chettiar, Hanumantha Rao Pantulu, Hajee Mohamed Abdul Kuddur Badgha Sahib, etc. At a few other trading and commercial centres also chambers were organised by Indians. Some of these were the Delhi Hindustani Mercantile Association formed in 1893; Indian Chamber of Commerce, Cochin, organised in 1898; Federation of Commerce and Industries, Hyderabad state, organised in 1900.

It was mentioned earlier that in the wake of commerce, modern industries such as plantation, coal mining, etc, were established in India. The development of these industries led to the organisation of industrial associations to take care of their interests, and as the British were the pioneers in industrialisation, the lead in the formation of industrial association also came from them. By 1885 four associations, the Wheat and Seed Trade Association, the Indian Tea Association, the Indian Jute Manufacturers' Association, and the Calcutta Hydraulic Press Association were formed. These and many other trade and industrial associations formed by European businessmen at Calcutta were housed at and serviced by the Bengal Chamber of Commerce, Calcutta. British businessmen formed similar industrial and trade associations in other centres also. Thus the Madras Traders' Association was formed in 1856 the United Planters' Association of South India in 1893; and the Bombay Traders' Association in 1902.

Industrial Associations

The development of industrial associations also followed the pattern of the development of chambers of commerce, and as Indians entered industries, they organised their own industrial associations apart from the ones under British hegemony. Thus in 1913, a number of Indian members of the Indian Mining Association seceded from it and formed the Indian Mining Federation. The Indian Tea Planters' Association was formed in 1915. Subsequently, the impetus given to Indian industries by the War and the need for protecting them in the post-War period prompted the growth of associations in other industries also.

The formation of general purpose associations as well as associations devoted to specific industries and trade was very much related to economic development, and with the development of industry and commerce in the country more and more associations were formed. An idea of the rapidity with which associations were formed can be had from the Table which gives a classification of the 517 associations, from which information was obtained, on the basis of their year of origin.

A perusal of the Table shows that there has been more or less steady growth in the number of associations formed during the seven decades of this century, though there were sudden spurts in the number of associations formed during certain decades. Columns 6 and 7 of the Table show that the first such spurt was during the decade 1931-40, when 65 associations were formed in contrast to 26 associations formed during 1921-30. However, the largest number of associations were formed during the decades 1941-50 and 1951-60 when, respectively, 140 and 151 associations were formed. Generally these were the decades when the industrial and commercial base of the country was expanded rapidly in the wake of the Second World War, Independence and the launching of five-year plans, necessitating the formation of numerous industrial and general purpose employers' associations.

Growth of Indian nationalism and business activities had their impact on European businessmen and their activities. To some extent it dampened their enthusiasm for the formation of exclusive associations of their own. On the other hand, as most of these chambers were organised on an exclusively European membership to further the commercial interests of the ruling class in the country, signs of political and economic consciousness among Indians at the turn of the last century provoked in them the need for concerted effort through a central organisation. The first attempt towards such concerted action was made in 1905 at a conference held in Calcutta. No further steps were taken till 1917, when a second conference of various chambers under British leadership was held in Delhi. However, the final decision to constitute an Associated Chambers of Commerce of India and Ceylon was made at a conference held on January 8 and 9, 1920. The association which was incorporated in the same year as a public limited company consisted initially the following chambers, *viz*, Bengal, Burma, Calicut, Ceylon, Chittagong, Coconada, Cochin, Coimbatore, Madras, Karachi, Naraingunj, Northern India, Punjab, Upper India, and Tuticorin. With the secession of the Ceylon Chamber of Commerce from the Association in 1932, its name was modified to the Associated Chambers of Commerce of India.

The British chambers and associations were extremely influential during the colonial period, having close formal and informal contacts with India's rulers both in India and "at home". They were represented on the early legislative councils and later legislative assemblies, and played important roles even on matters not directly concerned with their own industrial interests. How secure the British planters felt their interests were under colonial rule is illustrated by the following extract from the speech of the Chairman of the Indian Tea Association at the 1936 annual meeting: "This need for a more intimate concern with politics is not made necessary solely because of the particular legislation which has more recently been enacted... but for years past we, in common with nearly any other industry, have relied upon that splendid body of civil servants, to mother and father our political interests."[13]

Whereas the British businessmen maintained close contact with the bureaucrats, Indian businessmen maintained liaison with the political leaders of the country. Mention has been made above of the association between the Indian National Congress and the Bengal National Chamber of Commerce. From 1905 onwards along with the annual meetings of the Indian National Congress an "Indian Industrial Conference" was held. The conference carried on propaganda for the industrial development of the country, and stressed the need for technical and commercial education, and Indians entering industrial activities on a larger scale. In subsequent years the conference urged the starting of Indian chambers in all commercial centres, where they still did not exist and at its ninth session held in 1913 resolved "to bring about co-operation and coordination between the existing Indian Chambers of Commerce, Trade Associations, Mercantile Unions and Industrial Associations".[14]

Birth of FICCI

Although the Industrial Conference did much through its annual sessions to focus public opinion on the need for an industrial awakening in the country, its close association with the Indian National Congress led to preoccupation with political problems as well. It was, therefore, felt that in the interest of Indian commerce a separate and more vigorous representation of commercial interests was necessary. This feeling found general acceptance among the Indian commercial community and in 1915, mainly through the efforts of the Indian Merchants Chamber and Bureau, Bombay, an Indian Commercial Congress was convened at Bombay with Fazulbhoy Currimbhoy as the chairman of the reception committee. At the Congress a resolution was passed approving the establishment of an "Associated Indian Chamber of Commerce", and a committee was empowered to take necessary steps to get the chamber registered and members enrolled.[15] However, nothing happened till 1920 when the Indian Industrial Conference and the Indian Commercial Congress were amalgamated in the Indian Industrial and Commercial Congress.

At the third session of the Industrial and Commercial Congress held at Delhi in 1926 a proposal to establish an Indian Associated Chambers of Commerce was approved and a committee was constituted to take appropriate action on this behalf, and at the next session of the Congress held at Calcutta between December 31, 1926 and January 2, 1927, a resolution approving the formation of a Federation of Indian Chambers of Commerce was approved. Thus the Federation was formally launched, and two years later, the name was changed to the Federation of Indian Chambers of Commerce and Industry (FICCI), thus emphasising its character as representative of Indian commerce as well as industry.[16] The first president of the Federation was Dinshaw M Petit and some of the other leading personalities associated with its formation were Purushotamdas Thakurdas, G D Birla, Shri Ram, Kasturbhai Lalbhai, Jamal Mohamed, Walchand Hirachand, Padampat Singhania, etc. In the year of its starting, the Federation had a membership of eleven chambers and thirteen industrial associations. The office of the Federation was at first located in the premises of the Indian Merchants' Chamber and Bureau, Bombay, till it was shifted to Delhi in 1931, when a full-time secretary was also appointed.

The formation of FICCI not only created two national employers' organisations, but in a sense completed the breach between the Indian and British employers. However, it must be mentioned that while the FICCI was more or less completely Indian from the beginning, the Associated Chambers had a few Indian members, especially from the Parsi business community in Bombay. The house of Tata almost from the beginning preferred to associate itself with the Associated Chambers of Commerce rather than the FICCI.

Table 1 : Classification of 517 Employers' Organisations on the Basis of Their Year of Origin

Period of Origin	Specific Industry or Trade Associations		General Purpose Associations		Total	
	No	Per Cent	No	Per Cent	No	Per Cent
1	2	3	4	5	6	7
Before 1900	20	4.9	13	11.9	33	6.4
1901 - 1910	8	2.0	6	5.5	14	2.7
1911 - 1920	14	3.4	5	4.6	19	3.7
1921 - 1930	17	4.2	9	8.3	26	5.0
1931 - 1940	46	11.3	19	17.4	65	12.6
1941 - 1950	117	28.7	23	21.0	140	27.1
1951 - 1960	132	32.4	19	17.4	151	29.2
1961 - 1969	48	11.8	12	11.0	60	11.6
No response	6	1.5	3	2.8	9	1.7

The activities of various chambers and trade and industrial associations were primarily related to taxation, exchange rates, fiscal policy of the government, etc. Many of these organisations were occasionally called upon to deal with labour problems also, mostly in an advisory capacity, in industries such as textiles, as representatives of employers. However, "labour" had not as yet become a serious problem for management and could be managed as it thought fit: laws regulating working conditions were few; trade union movement was weak and limping; wages were low; and the government yet lacked any purposeful labour policy. No wonder, in such a situation, institutions specifically dealing with labour matters did not come up in India. And when starting such an association was first contemplated, the *impetus was given by some external* forces rather than any need to meet the local situation.

Exclusive Employers' Organisations

India was an original member of the International Labour Organisation (ILO) and as such the government had an obligation to honour the conventions passed and accepted at the International Labour Conferences held every year. In the absence of a definite labour policy, the International Labour Conference to some extent became a source of India's labour policy and therefore the need to influence the decisions made at the Conference became an important issue for Indian employers. Early in 1930, the FICCI felt that as questions dealing with Industrial labour were being discussed and decided upon at the various sessions of the International Labour Conference, it was essential to organise a central body of industrial employers in India to enable them to take a greater interest in the deliberations of the conferences held at Geneva. The need for such an organisation was also felt by the Indian employers' delegation to the International Labour Conferences, and as an early step towards the establishment of such an organisation, the FICCI issued a circular letter to find out the reaction of its members to the organisation of a textile employers' association. However, a sub-committee of the Federation to which this issue was referred suggested the formation of an association covering all industries. While these developments were taking place at home, the representative of the Federation in the International Organisation of Employers also suggested the desirability of such a central organisation of employers.

Meanwhile, similar developments were taking place amongst the members of the Associated Chambers group also. The Millowners' Association, Bombay, for example, had convened a meeting of some leading figures in ACCI affiliates as early as 1920 to discuss the formation of an All-India Federation of Employers' Associations, but the death of some of the most active supporters of the idea held up progress. The Millowners' Association made further efforts in 1925 and 1929 not only urging the need of an organisation to nominate an ILO delegate, but also listing other matters such as the menace of industrial unrest and various legislations such as the Trade Unions Act and the Factories Act as issues which should be tackled by the proposed body.

However, the stimulus for the immediate formation of organisations exclusively dealing with labour matters was provided by the government. Until 1927 the employers' delegate to the International Labour Conference was nominated by the government out of names submitted by the European chambers and organisations. In 1927 the first Indian was nominated as a result of pressures from Indian chambers. In 1931, however, the government said that names for the employers' delegate should come from organisations exclusively dealing with labour matters. This was the immediate cause of the creation of the two national employers' organisations. When this communication was received from the government, the Committee of FICCI at its meeting held on September 21, 1932 in Bombay informally authorised its president, Walchand Hirachand, to "seriously consider the question of launching a central organisation to represent all industrial employers in the country". A draft constitution was prepared and it was circulated to prominent industrialists in all provinces of the country and the formation of the All-India Organisation of Industrial Employers was officially announced in the Press on December 12, 1932, with about 60 industrial employers as original members. The membership covered about 1,50,000 labourers employed in various industries such as cotton and jute textiles, salt, sugar, iron and steel, shipping, match manufacturing, constructional engineering, drugs and chemicals, etc.

Meanwhile, members of the ACCI were also taking measures for the immediate formation of an exclusive employers' organisation and at a meeting held at Simla in 1932, a final decision to form such an association was made, and the Employers' Federation of India formally came into existence early in 1933, a few months after the formation of the All-India Organisation of Industrial Employers, when it was registered under the Indian Companies Act at Calcutta. Two leading figures in these proceedings were Homi Mody, Chairman of the Millowners' Association, Bombay, who represented the cotton textile industry in the Legislative Assembly and Edward Benthall of the major managing agency, Bird and Co, who was a leader of the European group in the legislative assembly. The political desirability of having an Indian leader seems to be at least partly responsible for Homi Mody being made the first president and the consequent establishment of the headquarters of the Federation in Bombay. For many years the Federation was housed with the Millowners' Association, Bombay, which provided the organisation's secretariat.

The creation of two employers' organisations at the national level made it impossible for any one of them to claim the exclusive right to nominate the Indian employers' delegate to the ILO. This necessitated some kind of rapport between them. The early relations between the two organisations being uncordial, they could not meet together till an opportunity for it was provided by Frank Noyce, member in the Governor-General's Council for Industry and Labour, through a conference at which the two organisations reached an informal understanding that they would jointly recommend the name of the employers' delegate to the ILO Conference. In future also, there were several other occasions for them to act in concert, but before dealing with that we will give a brief account of their early histories.

AIOIE and EFI

In the early years the main activities of the Organisation continued to be centred around the appointment of an employers' delegate to the International Labour Conference and some other international meetings. Beyond this the Organisation did little in the field of labour. Indeed, in some of the early meetings discussions were about taxation, tariff protection and similar problems, rather than labour matters. Besides at this stage the Organisation had little existence of its own, independent of its parent organisation, the FICCI. This situation continued for more than a decade and it was only

in 1944 that there was any sign of the Organisation thinking of expanding its activities or developing an independent image for it. In a note the secretary of the Organisation sent to the president in 1944, it was mentioned that until then the annual meetings of the AIOIE were held on the morning of the second day of FICCI's annual session at about 10.30 a m "and in the course of half an hour the whole thing is over". However, in later years the increasing volume of labour legislation and the development of tripartite consultative machinery called upon the Organisation to play a more active role in the field of labour. To meet this situation, the Organisation enhanced its rate of subscription in 1945 from the original low rate of Rs 10 and Rs 25 for "individual" and "association members" to Rs 100 and Rs 500, respectively.

An Independent Image

Because of the need, for political reasons, to have Indians as employers' delegates at the ILO the Employers' Federation of India has always been less British than its sponsor, the Associated Chambers. Certain other factors also contributed to the development of such an independent image: the centre of gravity of the ACCI was Calcutta but the Federation has always been based at Bombay where the Parsi business community has played a major role in the British Chamber and the leading industrial association, the Millowners' Association. The first president of the Federation, Homi Mody, was a Parsi. Historically and geographically, the EFI has led a separate existence from the ACCI except at Calcutta where a dominant role has been played in both organisations by the Bengal Chamber of Commerce.

Despite the scope of the activities which the Millowners' Association had suggested for the new Federation, in the early years organised attention did not go far beyond the question of the delegation to the ILO. At annual meetings upto the Second World War frequent mention was made of the need for the Federation to play an active part in bringing about co-operation among employers, to co-ordinate views on labour matters, and disseminate information, undertake surveys of labour practices and so on. But the machinery to achieve these objectives was not available and generally matters were left in the hands of the President to do what he could to further the interests of the organisation. The increasing role of the government in the labour field and their policy of bringing employers' and workers' organisations into consultation during the Second World War and after Independence forced the Federation to widen its activities, but it was not until 1958 that the very rudimentary organisation established in 1933 to nominate delegates to the ILO underwent a major reorganisation to meet the increased demands being made upon it.

Council of Indian Employers

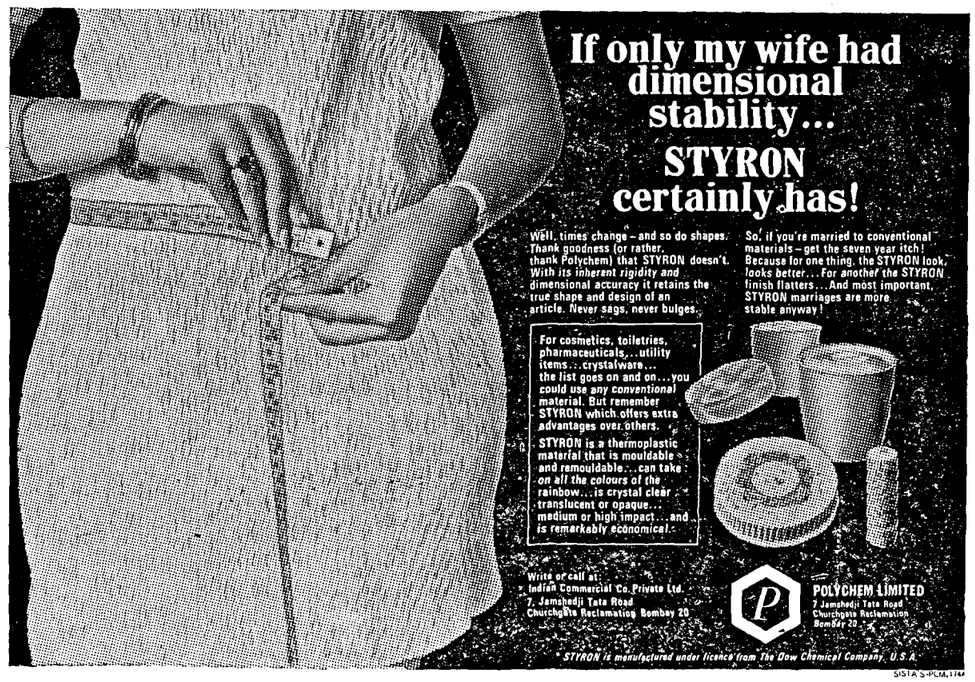
The AIOIE and EFI came to an understanding about the selection of the employers' delegate to the ILO soon after their formation, but despite various discussions about amalgamation, relations between the two bodies were not cordial in their early days. The split between Indian and British interests was of course fundamental and real, but other factors such as personality clashes appear to have played a part. Even in the changed political situation after Independence relations at first remained cool. Since the mid-fifties however the two organisations have moved much closer although amalgamation discussions have still proved fruitless. Informal consultations on major issues became more frequent and in 1957 the two bodies entered into an agreement creating the Council of Indian Employers to act as a spokesman for the two bodies when acting together. The Council is not in any sense an amalgamation or federation, but merely a common channel of communication to the government when the two organisations are agreed upon a policy. Despite their fundamental differences over issues, the two organisations have been putting together a common facade through the CIE, and it seems at least to a certain extent such a move was motivated by the desire to keep under control the emergence of a third body, *viz*, the All-India Manufacturers' Organisation, at the national level as another representative of employers.

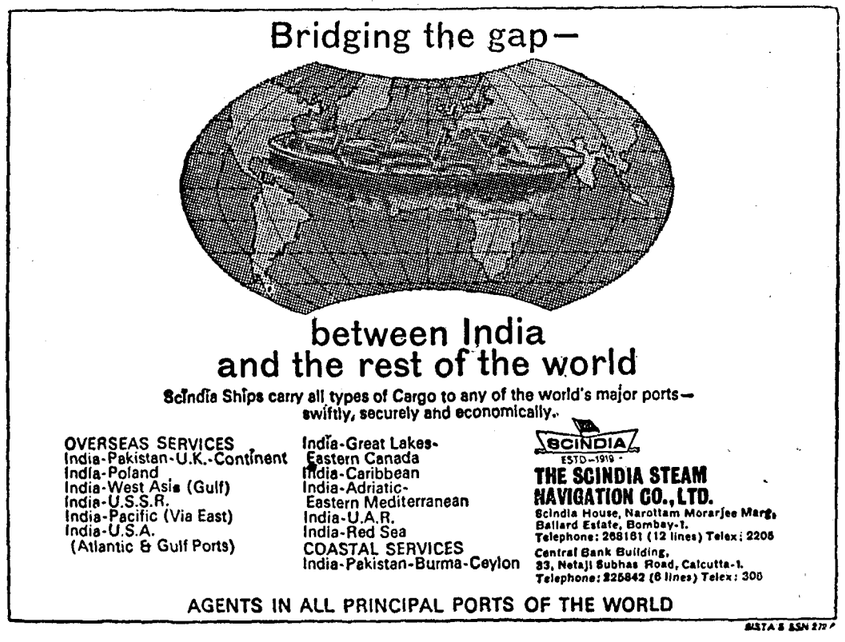
The All-India Manufacturers' Organisation was established in 1941 with the main objective of helping "to improve the organising ability and working power of individual citizens and to bring about by every possible means the rapid industrialisation of the country". With this aim, the AIMO sought and obtained a good deal of support from professional managers and small entrepreneurs, and pursued a vigorous life by organising seminars, conferences and study classes, conducting exhibitions, etc. By 1946 the AIMO had started making representations on industrial relations matters and seeking representation on various committees. In 1948, it asked for a seat on the Indian Labour Conference and this was granted in 1950. By 1952, it had set up an Industrial Relations Committee to provide an advisory service to members. From the same year, it had been pressing for being included in the employers' delegation to the ILO. In an effort to build and retain its membership, the AIMO has been forced to offer some minimum forms of service in trade and labour matters to its members, and in this lies its claim to be a national employers' organisation.

Thus there are three important organisations at the national level claiming employers' representation and dividing the employers into different groups. Even though the relationship between these three organisations is not as uncordial as that among the various central trade union organisations, their separate existence has contributed one more complexity to the industrial relations system in the country.

Notes

1 Geoffrey W Tyson, "The Bengal Chamber of Commerce and Industry, 1853-1953: A Centenary Survey", pp 15-16, quoted by him from the original constitution of the Calcutta Chamber.
2 *Ibid*, p 15.
3 *Ibid*, p 13.
4 Federation of Indian Chambers of Commerce and Industry, New Delhi, "Silver Jubilee Souvenir, 1927-51", p 19.
5 "Upper India Chamber of Commerce, Cawnpore, 1888-1930", p 1.
6 "Bengal National Chamber of Commerce and Industry, 1887-1962", pp 33-35.
7 *Ibid*, p 35.
8 Federation of Indian Chambers of Commerce and Industry, *op cit*, pp 19-20.
9 Bengal National Chamber of Commerce and Industry, *op cit*, p 45.
10 *Ibid*, p 49.
11 Federation of Indian Chambers of Commerce and Industry, *op cit*, p 23.
12 South Indian Chamber of Commerce, "Golden Jubilee Souvenir", p 3.
13 Percival Griffiths, "A History of the Indian Tea Industry", Weidenfeld and Nicolson, London, 1967, pp 526.
14 Federation of Indian Chambers of Commerce and Industry, *op cit*, p 8.
15 *Ibid*, p 9.
16 *Ibid*, p 12.





Net Present Value versus Internal Rate of Return

A Comment

L C Gupta

IN 'Net Present Value versus Internal Rate of Return' (November 27, 1971, pp M-153-6), Rangarajan and Mampilly express the view that while both the Net Present Value (NPV) and the Internal Rate of Return techniques have an underlying implicit assumption about re-investment of the cash flows generated during the life-time of a project, the main difference between them lies in assuming different re-investment rates. To quote them:

> The conflict between internal rate of return and the net present value methods arises only where a choice has to be made between mutually exclusive projects. *But different conclusions are reached primarily because of the differing assumptions relating to the rate at which the cash generated in the course of the life of the projects can be re-invested.* (Italics mine.)

Their view is that the implicit re-investment rate is assumed to equal the cost of capital in the NPV method and to equal the internal rate of return itself in IRR method.

The purpose of this note is to show that this view is not correct. I am aware that Rangarajan and Mampilly are in the company of many distinguished writers on capital budgeting.[1]

The most emphatic rejection of the existence of any assumption about re-investment of cash flows comes from Allen and Sykes:

> A common misconception regarding DCF returns is that they imply that the capital recovered from a project is reinvested at the project's DCF rate of return over the remainder of its life. This misconception arises from misunderstanding the definition of a DCF return... The DCF return is correctly defined as the rate of return on the capital outstanding in a project during every year of its life. This interpretation no more assumes reinvestment at the project's rate of return than the statement that a bank is receiving a 6 per cent rate of interest on an overdraft implies that the bank is re-investing repayments of the overdraft at 6 per cent.[2]

Some writers expressly define the DCF rate of return as relating only to the outstanding amount of investment without implying anything about re-investment of cash generation. For instance, Quirin defines IRR as:

> The internal rate of return is the return earned *on that portion of the investment which has not yet been recovered.* It is the true rate of return on the unrecovered *investment in that it is the largest* amount which can be withdrawn each year and allow recovery of the initial investment by the expiry of the project.[3]

The notion that DCF techniques (both NPV and IRR) of calculating returns on investment implicitly assume re-investment of cash generated during the project's life has its source in the method frequently used to show the importance of timing of cash flows to the profitability of projects. The advantage of receiving Rs 500, say, in Year 3 instead of in Year 4 is shown by the opportunity available for re-investing the earlier receipt which results in a larger terminal value.

In other words, it is the use of *compounding* the cash flows to the terminal date of a project, instead of the use of *discounting* to the starting date, which has misled surprisingly even some eminent writers to regard re-investment as being implicitly implied in both the DCF techniques.

Rangarajan and Mampilly present in Table A (p M-154) an illustrative calculation of what they call Net Terminal Surplus (NTS) and remark:

> We found that both *in respect of* Project A and Project B, there is a positive surplus at the terminal point (Rs 26.7 and Rs 16.2) *under the assumption that the flows are re-investible at 10 per cent.* (Italics mine.)

Their qualification, *viz*, "under the assumption that the flows are re-investible at 10 per cent" is not supported by the method of calculation and is unnecessary. The surplus arising at the end of each project is the result wholly of the earning on the unrecovered portion of the investment (for instance, the unrecovered amount of Rs 30 carried over to Year 2 continues to earn 10 per cent, but no earning is taken into account on the recovered portion of Rs 80, the cash inflow in Year 1). Thus the surplus, according to their own calculations, contains no element representing earning from the re-investment of the cash inflow.

Consider another illustration (Case I, p M-154) given by them as follows:

	Initial outlay	Cash flow at the end of		NPV at 5 per cent	NTS at 5 per cent	IRR per cent
		Year 1	Year 2			
Project A	Rs 100	20	120	27.8	30.75	20
Project B	Rs 100	100	31.25	23.58	26.00	25

Let us see whether the IRR calculations depend in any way on the re-investment assumption which they regard as crucial:

	Project A
	Rs
Initial outlay	100
Add 25 per cent return on investment	25
	125
Less recovery in Year 1	100
Unrecovered investment at the beginning of Year 2	25
Add 25 per cent return on unrecovered investment	6.25
	31.25
Less recovery in Year 2	31.25

(Similar calculations can be made for Project B)

The above computation with respect to Project A demonstrates that 25 per cent is being earned only on the unrecovered part of the initial outlay and that the calculation of the IRR is quite independent of how the cash recovered from year to year is to be utilised. So far as the IRR is concerned, it remains altogether unaffected by whatever use is made of the cash inflows which could be used, wholly or partly, to pay dividends, or to repay loans, or for re-investment in the business, or as cash balance.

If the initial outlay had been financed through borrowing and the cash generated is repaid to reduce the borrowing, then according to their own statement, "the explicit re-investment rate may be taken as the one charged by the credit institution for their lendings". Will the use of surplus cash for repayment of borrowing, bearing 5 per cent interest, affect in any way the IRR calculations made in the above example? If the contention that IRR implies re-investment of cash flows at the same rate is correct, the use of cash flows for repayment of borrowing (implying a reinvestment of only 5 per cent in the form of saving in interest charges) should affect the IRR calculation. However, we have already shown that the IRR is totally independent of the use to which the cash flows are put.

According to the authors, the IRR has two underlying assumptions: (1) the cash flows are re-investible at the

SAID.

TABLE 1

(per cent)

	0	5	10	15	20	25	30
NPV of Project A	40.0	27.8	17.3	8.1	Nil	(—)7.2	(—)13.6
NPV of Project B	31.25	23.6	16.7	10.6	5.0	Nil	(—) 4.6

particular value of the IRR and (2) the borrowing rate or the rate at which funds obtained is the same as the rate at which cash inflows are re-invested This would mean that there is no distinction between IRR and cost of capital. If this was true, there would be no way for arriving at accept-reject decisions on the basis of IRR method.

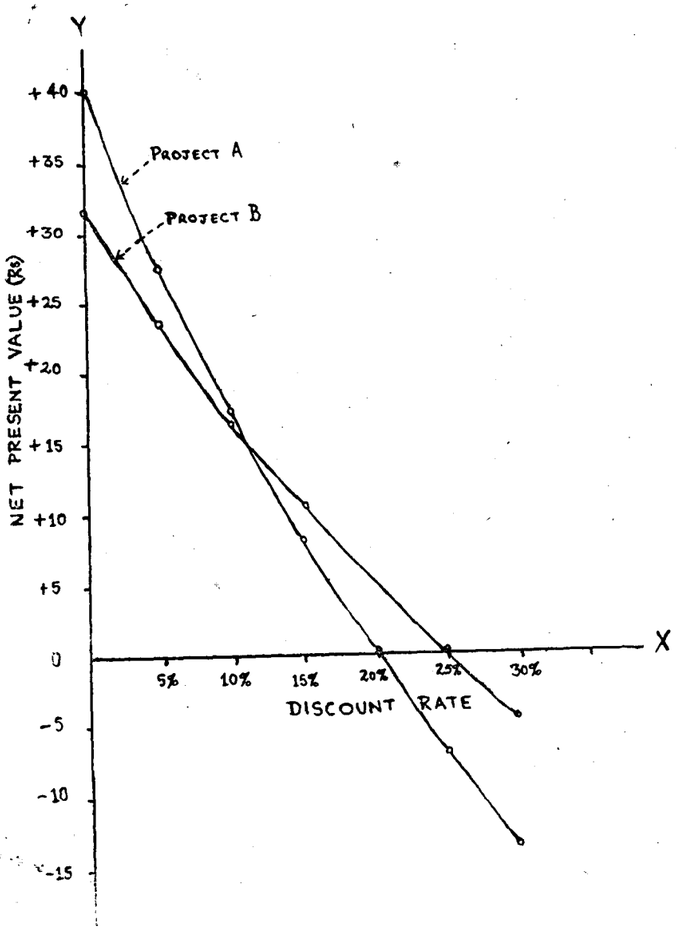
The two assumptions made by them with regard to the IRR method lands the authors into terrible confusion and contradiction. Witness their following observation:

If the IRR connotes a rate different from the established reinvestment rate, it loses its practical significance. In that situation the IRR cannot overrule the results obtained under NPV/NTS. At best the IRR indicates the theoretically maximum rate at which funds can be borrowed to finance a project. However, it would be incorrect to treat that rate automatically as the reinvestment rate.

We may here investigate further the reason for conflict between IRR and NPV methods in certain situations. Taking the cash flows, of case I, as given by the authors. Table 1 shows the NPV of the two projects A and B at different rates of discount.

It may be observed from Table 1 that Project A has a greater NPV than Project B at discount rate of upto 10 per cent. When the discount rate exceeds 10 per cent, Project B has greater NPV than Project A. The same data are presented on Graph I in which the X-axis measures the discount rate and the Y-axis measures the NPV. The graph shows that the NPV curves of Projects A and B intersect at a discount rate of slightly over 10 per cent. The NPV ranking of the two projects is reversed after the point of intersection. It may also be observed that the point at which the NPV curve cuts the X-axis (i e, NPV=0) measures the internal rate of return.

GRAPH I



The NPV falls more rapidly in the case of Project A than Project B (Graph I) as the discount rate rises. This is because the more distant returns from a project show a steeper fall in their present worth, as compared to nearer returns, as the discount rate rises. Hence the slopes of the NPV curves for different projects will differ because of difference in the time-patterns of their returns. In Graph I, the NPV ranking of Projects A and B changes after the point of intersection of the NPV curves. The change in ranking has nothing to do with any assumption about re-investment of cash inflows.

The discount rate to be used for calculating NPV in a specific case must reflect the firm's cost of capital, which in turn reflects the marginal productivity of capital in the economy. From the firm's point of view, for a capital project to be justified, all that is necessary is that the unrecovered portion of the investment must earn not less than the cost of capital to the firm. As shown earlier, the earnings on the re-investment of cash inflows from a particular project do not enter into the calculation of NPV nor into that of IRR, both of which are thus independent of the 're-investment rate'; the DCF returns depend only on the rate of return earned on the investment remaining outstanding.

Notes

1 See, for instance, James C Van Horne, "Financial Management and Policy"; Second Edition; New Jersey, 1971; p 63.
2 A J Merrett and Allen Sykes, "Capital Budgeting and Company Finance"; London, 1969; p 117.
3 G David Quirin, "The Capital Expenditure Decision"; Illinois, 1967; p 82.

Reply

Paul Mampilly

WE* are grateful to L C Gupta for having communicated his reservations in his comment on our paper.

Let us make the objective explicit. We discuss NPV, IRR or NTS only in relation to their applications in evaluating investment opportunities. This evaluation is (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. The focus is the investor and the barometer is his total finances.

Any investment generates a series of inflows and outflows. Some of the flows would relate directly to the operations of the particular proposition (we call these 'primary flows'), and others will be consequential in nature, depending on when the primary flows occur and how they are subsequently deployed (we call these 'secondary flows'). The investor is as much interested in the secondary flows as in the primary flows, for he looks forward to the changes in his total finances. The *totality* of the flows generated by an investment decision should be the base for evaluation, and not just one component of it.

* C Rangarajan is at present away in the United States. The author has generally discussed with him the outline of this paper, and claims responsibility for any errors which might have crept into the final draft.

We shall make the position clear by drawing on the analogy of 'overdraft', suggested by Allen Sykes (and quoted by Gupta). Let our banker have Rs 100 to invest. Among the various alternatives available, let him choose lending under 'overdraft' which ensures 6 per cent per period on balances outstanding Let the operations under the overdraft be such that the client returns Rs 75 every alternating period (such a pattern of transactions is quite probable if we were to assume that the period ran for six months — busy season and slack season). The overdraft account, for a time horizon of 4 periods, would look as follows:

Period	Balances Outstanding under Overdraft	Interest Recovered at End	Funds Available for Further Re-investment
0-1	100	6.00	—
1-2	25	1.50	81
2-3	100	6.00	7.5
3-4	25	1.50	88.5

It is true that the 'overdraft' yields 6 per cent return on the outstanding balances. But does this mean that the banker obtains a return of 6 per cent as a result of his decision to utilise the funds on overdraft? This is the crucial question to which any investor would seek a reply. Consider the following three situations among many others.

Situation (a): Funds return at a time when there is general slackness in the money market such that no interim utilisation is possible, nor could the money be repaid to the depositor; undrawn balances and interest inflow remain as idle cash (bank) balance.

Situation (b): Returned funds (inclusive of interest inflow) could be readily re-invested in Treasury Bills with, say, 2 per cent return.

Situation (c): There is an unlimited demand for funds at 6 per cent, and all the inflows could be re-invested at this rate as and when they occur.

Table 1 would show that in case the overdraft account is (notionally or otherwise) closed at the close of period 4, the banker will be left with Rs 115 under situation (a), Rs 118.61 under situation (b) and Rs 126.25 under situation (c), respectively, connoting a return (IRR) of 4 per cent, 4.25 per cent, and 6 per cent.

It is thus evident that as re-investment opportunities vary, so does the return on the project. Although the balances outstanding under the overdraft return is 6 per cent, irrespective of the use to which the primary flows are put, the IRR of the investment converges to 6 per cent only when reinvestment opportunities for the primary flows exist at that rate. The information, that

TABLE I

Period	Situation	Disposition of Funds during the Period: Overdraft at 6 Per Cent	Treasury Bill at 2 Per Cent	Other Opportunity at 6 Per Cent	Idle Balance	Flows at the End of the Period: Primary	Secondary	Total	Funds Available for Re-investment in the Subsequent Period
0-1	Situation (a)	100	—	—	—	6.00	—	6.00	81.00
	Situation (b)	100	—	—	—	6.00	—	6.00	81.00
	Situation (c)	100	—	—	—	6.00	—	6.00	81.00
1-2	Situation (a)	25	—	—	81	1.50	—	1.50	7.50
	Situation (b)	25	81	—	—	1.50	1.62	3.12	9 12
	Situation (c)	25	—	81	—	1.50	4.86	6.36	12.36
2-3	Situation (a)	100	—	—	7.5	6.00	—	6.00	88.50
	Situation (b)	100	9.12	—	—	6.00	0.18	6.18	90.50
	Situation (c)	100	—	12.36	—	6.00	0.74	6.74	94.10
3-4	Situation (a)	25	—	—	88.5	1.50	—	1.50	115.00
	Situation (b)	25	90.30	—	—	1.50	1.81	3.31	118.61
	Situation (c)	25	—	94.10	—	1.50	5.65	7.15	126.25

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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. Although we hope that the above would suffice to attract a greater appreciation of our stand, we shall be touching on the specific examples cited by Gupta. Before doing so, we restate the following points:

(i) We focus on the investor's finances as a total system. An investment decision is evaluated on the basis of the net change it causes to the finances of the investor over a specific span of time.

(ii) IRR, NPV and NTS have relevance only in their roles as tools aiding investment decisions. Any other interpretation to the connotations of these terms is irrelevant.

(iii) Using of cash flows for repayment of debt is a reinvestment *per se*, earning the rate of interest otherwise payable on debt. In like manner payment of dividend to the shareholders could be treated as a re-investment at the cost of capital rate.

(iv) Cash flows from the outstanding outlay at the debit of a project is just notional and does not form part of the flows affecting the total system of finances of the investor, so long as they are not re-invested in other earning assets. (To include retirement of debts, payment of dividends, etc.)

Example 1: Gupta holds that the surplus of Rs 26.7 in the case of Project A is independent of the rate of re-investment. So, obviously, we should not have added the qualifying words 'under the assumption that the flows are re-investible at 10 per cent'.

Our working of the surplus of Rs 26.7 is in Table 2(a). To be close to generality, we have not specified the type of investment assumed (column 5 and column 3). It could be repayment of loans or disbursement of dividends or anything else which might earn a rate of 10 per cent, or avoid costs to that extent. The secondary flows, however, aggregate Rs 19.80. The net terminal surplus of Rs 26.70 would, however, be true only under the assumption of re-investment 10 per cent.

Table 2(b) shows the working implicit in Gupta's statements. We have deliberately termed the surplus made available by the project (or recoveries from the project) as payment to lenders, type of investment assumed (column 5 For, according to us, a recovery can be deemed to have been made out of an investment only if the amount involved could be utilised elsewhere, or else, it does not matter whether the funds remain in the project or are released to be kept idle elsewhere. In other words 'recoveries' made at the end of each year to save cost liabilities (as per Gupta), and re-investments made to earn a revenue (according to us), are the same. Column 7 of Table 2(b) to be read with column 6 Table 2(a) and column 3 of Table 2(b) and column 3 of Table 2(a) will explain away the entire confusion. Avoidance of costs and increment in revenue earnings have the same impact on the investor's finances. Gupta may like to analyse the situation recasting the flow as 80, 50, 8 (against 80, 30, 30). This has the same terminal surplus of 26.7 at 10 per cent and could precipitate positively the issue of re-investment of Rs 17 at the end of the second year according to his own way of working.

Example 2: The discussions above we hope, would be enough to clear the doubts. We only add that the 'recoveries' would be 'relevant' only if they could be alternatively employed. This seems to be the basic conceptual error of Gupta. Imagine the project yielding Rs 150 at the end of first year with a terminal loss of Rs 31.25. The IRR is still 25 per cent, but would be valid only if the surplus of Rs 25 (left after 'recovery') could be re-employed at 25 per cent.

Towards the end of his comment, Gupta sets out to investigate the reasons for conflict between IRR and NPV, but seems to have forgotten his mission on the way. The graph, depicting the changes in profitability as between two projects for varying discount rates, with which he ends up, demonstrates, innocently though, the crucial role of the assumption on re-investment in the computation of NPV (and IRR).

To conclude, we should add that we are not interested in who says what, as in what is being said. We refuse to attribute more credibility to Allen Sykes and Quirin than to Gupta himself. May the Chinese quote the Americans!

TABLE 2(A)

Period	Primary Flow	Secondary Flow	Total	Amount Available for Reinvestment in the Subsequent Period	Accumulation of Costs on Initial Outlay (100) at 10 Per Cent
(1)	(2)	(3)	(4)	(5)	(6)
0-1	80.00	—	80.00	80.00	10.00
1-2	30.00	8.00	38.00	118.00	11.00
2-3	30.00	11.80	41.80	159.80	12.10
		19.80			

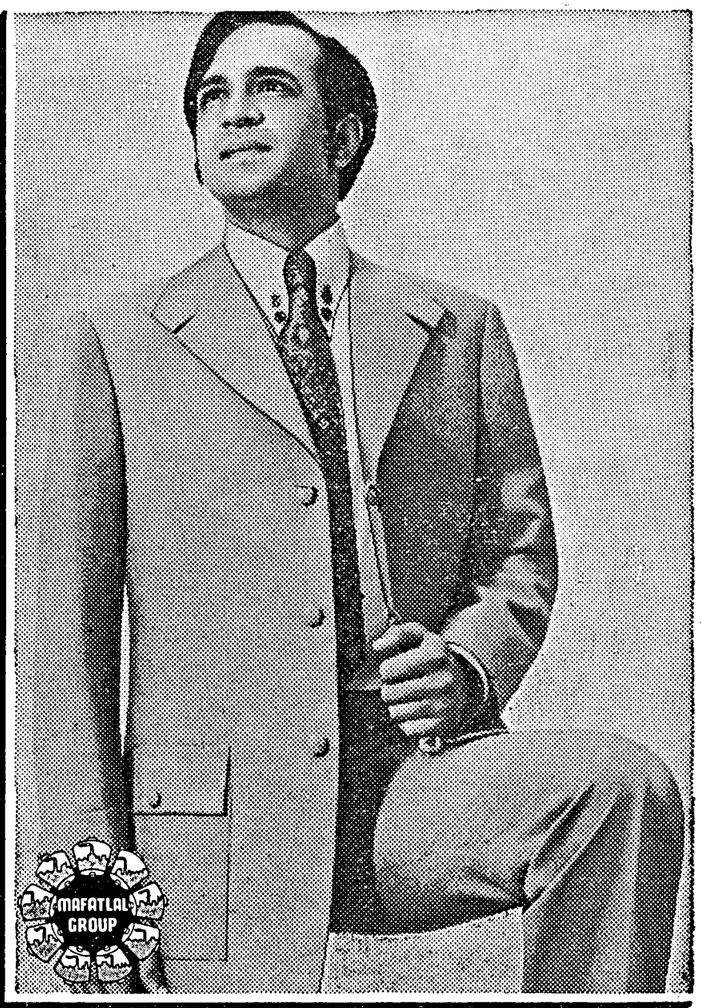
Note : (i) Reinvestment is assumed to earn at 10 per cent.

(ii) The cost of funds is also assumed at 10 per cent. The initial outlay accumulated to 133.10 at the end of period 3 against a total inflow of 159.80, and hence the surplus of 26.70.

TABLE 2(B)

Period	Primary Flows	Cost of Funds Unrecovered	Cumulative Outstandings Inclusive of Cost during the Period	Payment to Lenders or Owners at End	Amount of Funds Remaining Outstanding	Saving on Costs due to Payments as in Column 5
(1)	(2)	(3)	(4)	(5)	(6)	(7)
0-1	80	10	110	80	30	—
1-2	30	3	33	30	3	8.0
2-3	30	0.30	3.3	3.3	26.7	11.8
						19.80

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UNITED KINGDOM

For Whom the Flame Flickers

(By a Correspondent)

THOSE with long memories may recall that when a working class revolution in Britain seemed least implausible, in the years just before the First World War, there were three main threats to the British Establishment: the force of trade union militancy and organisation (embodied in part in the Triple Alliance), the movement for an independent Ireland, and the struggle for women's suffrage. Admittedly today, women's lib is not a child strong enough as yet to frighten any except errant husbands, but the Irish are living up to their historic reputation. And now in the miners' strike we can detect the echoes of the old working class militancy and solidarity of the pre-World War I labour movement.

It has been a long time coming. Since the late fifties successive British governments have been trying to curb the rate of growth of wages, of consumption. Originally, it was supposed to be the only way of safeguarding the external balance. Now the balance is as secure as can be expected in these troubled times, but the long campaign to secure to the rulers of Britain some increased room to manoeuvre in the face of intensifying world competition continues just the same.

Deflation

In controlling wages, workers were not the sole problem. For in much of the period since 1951, employers would not risk the effects of a stoppage on their profits. Conceding a wage claim was cheaper than a strike. So they too had to be persuaded to 'hold the wages line'. By and large, until quite recently, the government's efforts were not at all as successful as desired. Rhetoric and elaborate but essentially irrelevant institutional gimmicks were never so effective in persuading workers to abandon the pursuit of their interests as to allow the government to dispense with periodic deflation. And as time went by, what was known as 'Stop, Go' became increasingly 'Stop'.

Under the Labour government in the mid-sixties, the whole campaign took on a different character. Not only was there a carefully fostered mood of hysteria and anxiety in the Establishment — Britain was apparently plunging madly down to its doom — but also the bulwarks of the old social democratic *status quo*, accepted by Labour and Conservatives alike since 1945, were being allowed to disintegrate. The centrepiece of the order had been the alliance between the State and the unions. The unions agreed not to dabble in politics and to be 'responsible'; the State agreed to foster high employment, sustain a 'Welfare State', not be nasty to the unions and not dismantle the nationalised industries. One by one, Labour set the precedent for the subsequent Conservative attempts to abandon these commitments.

The Welfare State has, of course, long been in decline, or rather in transformation. The free elements have been eliminated, the class inter-subsidisation component (such as it ever was) removed, leaving a system of compulsory State insurance in which, very strictly, you get only what you pay for and often very much less than that. Indeed, the collapse of any aspiration to equality was most signally demonstrated in successive attempts to ensure that all benefits were 'earnings related': not even in retirement would you escape from the stratification of society. The charges for services have been continuously raised so that now, once again, the pricing of elementary medical facilities is a powerful disincentive for the poor. Public housing has been allowed to decline, like public medicine, while the private sector expands. Taxation on consumption has also climbed, and the process of inflation brings successive appallingly low paid strata into the net of income-tax. Under the Conservatives, also, there have been such gratuitously nasty 'economies' as the ending of free school milk and higher prices for school meals, both of which appear to have very significant effects on the consumption pattern of poorer children. Inflation in the late sixties has ground away at working class consumption through supermarket prices, rents, transport charges and so on. To cap it all, unemployment has now been allowed to rise to one million this winter.

Confrontation

But the centrepiece, at least in terms of world output if not direct economic effect, has been the growing assault on the trade unions and shop floor power both to curb or control national wage bargaining and local 'wage drift', i e, unofficial local pressure for local wage expansion. Wilson's 'shake out' of labour and the unemployment level have been important background elements here. In the foreground has been Labour's wage freeze and incomes policy, attempts to weaken union power and gaol unofficial leaders by legislation, (in Labour's white paper, "In Place of Strife", and the following Conservatives' Industrial Relations Bill), plus major dramatic confrontations between the State and selected trade unions.

The State naturally chose its own public sector to demonstrate its policy. Since the public sector includes a high proportion of industries in relative decline — pre-eminently, the railways and coal — the problems of secular decline collided directly with the short-term imperatives of government policy. In the fifties and sixties, the railways and the local government offices provided key battlegrounds. But there were also key battles in the private sector with the government lending very considerable support to the employers in each case — as Harold Wilson lent massive support to the shipowners in their long fight with the seamen in 1966. Where workers were well organised in expansive industries, they were usually able to break through despite the State — as, to the perpetual embarrassment of the government, workers at Fords and Chryslers did. But in poorly organised industries, perhaps sometimes deliberately selected by the government in order to demonstrate that it meant what it said, the results, despite amazing militancy on occassions, were often poor. The dustmen were chosen twice for chopping after a long history of no militant action at all (like the seamen). Last year, the post office workers were similarly whipped by the government after a very long and bitter strike.

The post office workers defeat was significant because it appears to have achieved just what the government wished. The rising mood of militancy among workers coming into wage negotiations was checked, trade union leaders were frightened by the possible consequences of being too tough, and to some extent the militants were demoralised. The campaign against the Industrial Relations Bill — which evoked two one-day partial general strikes last winter — petered out. The pace of increase in wage claims — to match the pace of increase in prices — was checked, and the average size of claims conceded dropped from something like 11-15 per cent to 6-7 per

cent. The increase in prices — despite a supposed freeze — continued, so that, just as the government wished, working class consumption bore the *main* brunt of damping down inflation. Inflation, unemployment and the possible effects of entry into the Common Market, continued to sustain that mood of growing anxiety and insecurity which has characterised British workers for the past decade. These pressures also began to change their attitudes to the unions and disentangle them from their *old loyalties* to the Labour and Communist parties.

Miscalculation

The miners, the toughest part of the leadership of the old labour *movement*, have long been in decline. In many ways, the miners represented *par excellence* the old social democratic alliance. Miner MPs for long dominated worker representation in parliament. Their efforts in part produced the nationalisation of the mines. Their political loyalties then produced an almost strike-free record in the post-nationalisation period after a very long history of militancy. The National Union of Mineworkers, with a strongly entrenched Communist element in the leadership, proved more loyal to the State than anyone could have predicted. It accepted the steady decline in the industry, the closure of pits and the massive rundown in the pit labour force as well as the *continuing* decline in the real value of miners' pay and, even more substantial, the decline in its relative standing. Admittedly the government was reluctant to take on the miners for a long time since it was not clear whether the supply of oil and natural gas would allow the economy to withstand a national coal stoppage. But recently, presumably, the government decided the risk was worth taking, as the impact of a coal strike would fall on the private consumer so swinging 'public opinion' against the *miners'* claim and in favour of the government (a calculation the government made in 1958 over the London busmen's strike). It probably also reckoned that the miners would be quickly demoralised. After all, a strike could be used as an argument for an accelerated rundown of the pits and increased redundancies.

The government was wrong on all counts. Once off to a sluggish start, the militancy of the *miners* seemed to soar. The old traditions of tenacity, toughness and fight emerged once more, if anything, intensified by the lack of strike pay, by the threat of the long-term shutdown of mining and so on. What is more, a considerable wave of sympathy from other sections of the labour movement became apparent from the beginning. The railwaymen, in particular, lent important assistance, apparently spontaneously, in blacking coal supplies from reserves for the power stations. The power workers themselves, with a few exceptions, did not offer much help; indeed, they had reached an earlier settlement, leaving the miners in isolation. The power workers refused to fight the Establishment, a decision no doubt powerfully influenced by the fact that they were defeated in December 1970. As for the main union leadership, including the left leadership of the two largest unions, characteristically they kept out of the way during the dispute lest they also become the objects of government wrath.

Consummation

The course of the dispute, its dramatic economic effects and the final victory, all will powerfully influence the mood of workers in the immediate future. The whole tone of the central battle over the division of the national product, the struggle to prevent a decline in real wages, will be changed. The system that once offered the slogan, 'You've Never Had it So Good' (Macmillan's 1959 election tag) is now increasingly unable to deliver the goods it so boldly promised in the fifties. In conditions of boom, workers need only to push the system to get more; in conditions of slump, there are so few victories possible that demoralisation is the usual result. But at the moment, the stagnation of the British economy — like that of much of the world economy — is making for other results. The miners' victory is very important in showing the determination of one group of workers that they are not prepared to pay the costs of the downturn in the system and the British Establishment's attempts to safegurd its share.

The same battles are occurring in most of the advanced countries. The 'archaic' battlecries of class warfare — echoed for example in the undisguised fury of *The Economist* at the settlement with the miners — are once more startling those for whom the 'end of ideology' had long ago settled all the major outstanding issues.

WEST GERMANY

Social Democrats on Home Ground

Aswini K Ray

EVER since the thin line between Utopian Socialism and Bourgeois Democracy started to disappear under the rub of capitalism's new compulsions, the German Social Democrats, like their counterparts elsewhere in the world, have been gripped with a gnawing identity crisis. On August 4, 1914, — the day the German Social Democrats voted overwhelmingly in favour of the war-grants to run the German bourgeoisie's war against its French counterpart — Social Democracy as a socialist movement died; the party usurped the movement and gifted its organisation to the needs of Bourgeois Democracy. "With August 4, 1914", wrote a disenchanted Rosa Luxemburg, "official German Social Democracy and with it the International have miserably collapsed". Since then, the party has functioned as the barometer registering the strength and weakness of the rising German bourgeoisie, and has generally provided a 'socialist' facade to a defensive capitalism; it continues to function as the shock-absorber of capitalism's inherent contradictions.

And not only are its theoretical propositions incompatible; the fact is that, as a political party, it is not immune to the sensationalisms of parliamentary politics. In its role as the second line of defence for Bourgeois Democracy, its 'socialist' pretensions have occasionally proved to be a liability; this party then, more than any other, is under duress to shed its thin socialist disguise and to differentiate itself most ostensively from the proponents of scientific socialism. This is true of all the different permutations and combinations of names — depending upon local susceptibilities — under which Social Democracy has opted to function.

"Socialism" now, as C E M Joad said, "is like a hat which has lost its shape because everyone wears it". In fact, by the sophisticated standards of modern 'socialism', Marx would perhaps be called the original revisionist for having talked of the class struggle when such 'harmony' of interest could exist between the organised 'aristocracy of the proletariat' and the technocrats, managers, and employers, under the

Social Democratic flag! In the high tide of capitalist growth, the two movements of scientific socialism and utopian socialism could co-exist to highlight another evidence of Bourgeois 'liberalism'; in times of crisis, they are the ones likely to be the most strange bedfellows, as has been proved times without number including in the Third Reich of Germany.

In this general frame of reference, there is nothing typically German — apart from the crudity of its manifestations — about the new wave of anti-Communist hysteria whipped up by the mass communications media in this country, reminiscent of the one that had led to the assassination attempt on Rudy Dutschke. Then, as now, the Social Democrats faced a general election and an economic recession, to which the capitalist cycle periodically and inevitably returns. Such situations have always given the Social Democrats, with all their ideological impurity, the opportunity to establish their *bona fides* to the system; and they have then provided the impulse to find the scapegoats for the inbuilt ills of the system. Modern Social Democracy thus remains firmly committed to the system.

The suddenly-revived 'search operations' for the 'Left-wing extremist' Baader-Meinhoff group — the remnants (may also be the by-products) of the so-called New Left movement of the late sixties — seems to fit into the 'socialist' Government's scheme of things. This group of political anarchists, consisting of or supported by some of the best products of the West German universities, allegedly professing to create insecurity in the Bourgeois society, have been at large now for over a year and a half; for all practical purposes they were forgotten in public memory, but for the Springer press which kept associating 'these communists' with all the heinous crimes, that are so much a by-product of the inbuilt 'rat-race' of the system. Now, with a series of daring back hold-ups, which have threatened to tarnish the 'law and order' record of the Government, 'extremist terror' has become the new ruse in this country. The ordinary criminals have also not missed the change to gain access to possible martyrdom in an atmosphere of general gullibility; in recent times, they have left behind communist literature to cover their crimes.

Now that the Non-Aggression Treaties with Moscow and Warsaw are already on the anvil for ratification by the Bundestag, and opposition allegations of 'total sell-out to the communists' is at its height, the much-publicised 'search operations' for these fugitives have assumed a new political urgency in 'socialist' Germany. How could such search operations on the autobahns or in public places succeed under the blare of press publicity and TV cameras, or how could they *not* succeed in view of the acknowledged efficiency of the German police, are questions which have never been answered. Meanwhile, police dragnets have been spread as far as Lebanon and Jordan, where, allegedly, the fugitives have been sheltered by the Al Fatah guerillas; many old pending cases against 'Left-wing' students participating in demonstrations, long forgotten, have now been revived for public trials. Recently, the German TV screened a full-length repeat performance, 'on public demand', of a students' 'tribunal' accusing the communist Spartakus group in the Hamburg University of 'political subversion'. The search operations have led to a number of shooting duels too, and to a few casualties — those from among the police forces have almost invariably been attributed to the acts of 'Left-wing extremists', while those from among the public have been posthumously convicted as having 'extremist links'.

Yet, for all the resources at the command of the West German police, the political fugitives have not only managed to remain at large, but in the newspapers and on the TV one finds letters from members of this group — in true Hitchcock style — written to the police and the public about their aims and intentions. An alleged member of this group, turned approver, is now being tried in Dusseldorf under nationwide fanfare. Based upon his 'disclosures', a well known university professor, an editor, a TV journalist, an engineer and his wife, among others, have already been punished *ex-parte* — some prosecuted and some retired from public services — for 'aiding' the criminal group. A chain reaction of protests and demonstrations have begun throughout the country under the agile eyes of TV cameraman and press reporters.

Under the influence of such shadow-boxing, demands have already been voiced for new legislation to deal with 'Left-wing extremism'. It is most likely that a new repressive measure against the communist movement, on the lines proposed in France, is the price the West German Communists would have to pay for having supported the Social Democratic *Ostpolitik* — whose immediate and direct beneficiaries are the West German bourgeoisie. It would be interesting to watch the reactions of the governments in Moscow and Warsaw if the treaties of non-aggression with them are followed by repressive measures against the communist movement at home in West Germany.

Climbing down from the general to the particular, one finds that, as election day is drawing near, everything seems to be going wrong for the Social Democrats; in fact, the situation mentioned in the foregoing analysis is precisely an index of things going wrong, despite the 'satisfactory' agreement regulating the Berlin traffic. First, the economic recession has reduced the proposed growth rate of the country in 1972 to 1 per cent, compared to 3 per cent last year and 5.4 per cent in 1970; an average 6 per cent fall in investments is proposed for the coming year with inflation at almost 6 per cent and unemployment already risen to 1.3 per cent. These comparative figures do not help in preparing any good election manifesto; but the Social Democrats could not possibly have hoped to have it both ways: to accept capitalism is to accept the near-impossibility of any accurate prediction of the cycle's slump position so well in advance as to forestall it.

Just at this inconvenient moment, the Minister for Science, Leuschnik, has tendered his resignation officially, for 'personal reasons' — the same reasons were earlier given for the resignation of the Finance Minister. But two successive resignations for 'personal reasons' have already reduced the credibility of the collective leadership of the cabinet. The opposition has already accused the Government of a 'weakening of leadership'.

Difficulties with Washington continue, now on the question of finding markets in Europe for America's agricultural surplus. The dollar devaluation has already cost the Bundesbank about $ 13 billion, directly, in terms of dollar reserves. But in the same way as the West Germans had kept the Russians and the Poles waiting to begin the ratification proceedings of the treaties, pending a 'satisfactory' regulation of the Berlin traffic, it is now the West Germans' turn to wait; the Americans would not initiate ratification proceedings in the Senate, unless markets are found for US agricultural surplus in Europe. And even if the West Germans agree to reduce their wheat production, as it already seems probable they will, France will remain the stumbling block.

Sensing in the Government's problem an opportunity for himself, opposition

leader Rainer Barzel rushed to Washington (after having hit against dead wood in Moscow and Warsaw) to see if he could get some assistance on the question of the *Ostpolitik*. He made many loyal declarations from Washington on the need for a fair trade agreement between Europe and the US; but indications are that no one in the US was fooled. Back home, he found the sly Strauss had already staged a minor *coup*: he had published the CSU version of the Non-Aggression Treaties to prove that the opposition criticism of the existing treaties was constructive. It led to some confusion in the opposition, but only on forms. In its context, the CSU draft, opening the door wide for all possible subversion in the name of non-aggression, had the stinted support of the opposition. The treaties, in their present forms, have not only been rejected by the opposition-dominated Parliamentary Foreign Affairs Committee, but the party has moved the Federal Court to decide upon the constitutional validity of the treaties. Its promise of 'total confrontation' with the *Ostpolitik* has thus been kept.

Meanwhile, thanks to the 'Ink-Bomb', Britain's entry into Europe elicited more attention than the occasion might otherwise have done. But the entry, as anticipated, has created as many problems for Europe as it solved for Britain. One already hears of a London-Paris axis excluding Bonn. The capitalist political cycle, like the economic cycle, seems now to have turned full circle. But no one needs to fear; modern Social Democrats could not react the same way as the petty-bourgeoisie of the Third Reich. Besides, all of capitalist Europe, irrespective of the different parties ruling its constituent units, has many common enemies and friends. The West German Social Democrats have already shown the way to keep their houses in order, so as to face the common enemies squarely.

REVIEWS

Cultural Components of Tradition and Modernity

M S A Rao

The Changing Brahmins: Associations and Elites among the Kanya-Kubja Brahmins by R S Khare; The University of Chicago Press, 1970; pp xxii + 251; 99s.

WHILE there have been a few studies of mobility attempts among the Backward Classes, the kind of efforts the upper castes are making in the process of modernisation, has not attracted the attention of sociologists and social anthropologists. Khare's study of the Kanya-Kubja Brahmins fills this gap. It is interesting to know the nature of the changes that are occurring among the Brahmins who are at the apex of the caste system.

In his formulation of the problem, Khare places the caste associations (*sabhas*) in the centre, and outlines their function in mediating the discontinuities and continuities in the process of cultural and social change. The first association of the Kanya-Kubja Brahmins was founded in Lucknow in 1884, and another in Kanpur in 1897. In course of time the associations proliferated and were located in such towns and cities as Ajmer, Jaipur, Gwalior, Indore, Sagar, Ujjain, Amaravati, Bhopal, Dohad, Jodhpur and Hyderabad. Madhya Pradesh has been the stronghold of Kanya-Kubja associations. The first caste journal, *Kanya-Kubja Bhaskar* was published in 1885 from Lucknow. Similarly Kanya-Kubja Anglo-Sanskrit Mahajani Pathsala was established in Lucknow in 1917. At present, there are in all four colleges, one school and a hostel, run by the Kanya-Kubjas.

A characteristic feature of the *sabhas* is that they provide social security for the Kanya-Kubjas who have moved to distant places with increasing education and the lure of modern occupations. While in 1937 the proliferation of the *sabhas* was significant, in the fifties there was a decline mainly due to a large proportion of the youth being enlisted as soldiers. Again in the sixties there was a revival which was a reaction to the state protection to other Backward Classes and Scheduled Castes and Tribes.

A significant activity of the *sabhas*, however, has been the establishment of educational institutions, which are symbols of social welfare and caste achievements. In some cases, they emphasise multicaste and multireligious participation so as to get governmental support. The caste journal serves an important purpose of maintaining communication among the scattered members of the community. It helps maintain cultural styles and acts as a marriage bureau.

The social, organisational and cultural characteristics of the caste *sabhas* of the Kanya-Kubja Brahmins emphasise elite participation, individually achieved social position, and modernity in the face of traditional values and norms. The author discusses the status stratification of the Kanya-Kubjas in chapters 5, 6 and 7 in order to connect with it the *sabha* behavioural patterns which are discussed in chapters 2, 3 and 4.

The most important feature of the traditional hierarchy, as represented in caste status, is that a Kanya-Kubja is simultaneously a Brahmin, a caste member, and an achiever in the modern hierarchy of occupational prestige. Khare calls this phenomenon interjacence where institutional and organisational activities interface or interject without having to move towards eventual replacement of one type by the other by striking a kind of functional balance. This forms the main burden of his argument.

Class Status

The modern counterpart of traditional status (caste) is class status based on occupational prestige. The author works out in detail the way caste and class status systems influence one another and how this is reflected in specific standards and styles of Kanya-Kubja life. The result is a series of interjacent situations — formality *vis-a-vis* informality, office *vis-a-vis* home, and tradition *vis-a-vis* modernity — leading to adjustment, adaptation and integration in the different aspects of style of life comprising family, kindred, caste loyalties, dowry, presentation and economic advancement. A Kanya-Kubja looks at the Brahmanic status as encompassing and justifying his thirst for modern economic and social position; and, of course, he is never in doubt about the instrumental value of the latter.

The author does not seem to show the kind of differentiation in respect of interjacent situations which occur between different sectors of individual activities. One may also surmise that

women are more tradition-bound than men, and men who have priestly occupations are more tradition-bound than those having a modern occupation. There is also the situation of working females. This kind of differentiation in the life-styles would throw more light on the interjacent situations and the kind of rationalisation that go with 'legitimisation' of changed behaviour patterns.

The author maintains that *sabha* reflects the interjacent behaviour of the Kanya-Kubjas. The *sabha* participants display a strongly shared sense of culture, charcter, and status on the one hand, and an ability to articulate and represent the *sabha* purpose in ways akin to modern organisational and administrative procedures, on the other. They do not blend the two dimensions; they treat them within their logico-meaningful premises. The *sabha* is caste-specific. But in organisation it carries features of universalisation. Thus it is an interjacent organisation admitting dynamic functional and processual changes in both traditional as well as modern social factors. The *sabhas*, which are primarily run by caste-elite, function to help observe the rules of marital and kinship norms, undertake caste welfare and education, and help achieve individual advancement.

In the end the author places the *sabha* in the wider context of caste associations, and notes that the Kanya-Kubja Sabhas are not reactions to any anti-Brahmin movement as in South India. Nor is there any need for political mobilisation because the Kanya-Kubjas are numerically small, and there is no issue to fight. Hence their main attempt has been to adjust themselves to the process of modernisation. Khare points out that a Kanya-Kubja Sabha's arena is composed of numerous overlapping kin groups uniformly obeying both caste principles of birth and endogamy. The Kanya-Kubjas are a modern caste group viewed as an overlapping but loose assemblage of kin groups, families and persons, each seeking occupational and economic advantages.

In the face of such evidence as Khare gives of the kith and kin networks among the Kanya-Kubjas, it may be suggested that when kinship and affinal bonds are strong, a caste *sabha* need not act as a political mobiliser. However, on this basis it cannot be said, as the author thinks, that the mobility attempt is absent in the *sabhas*. In fact, the achievement element which is so strong among the Kanya-Kubjas (as shown by the author himself), is promoted by the *sabhas*, and this leads to upward status mobility. There is therefore a need to distinguish between mobility attempts by castes spearheaded by political mobilisation and mobility attempts on the scale of modern occupational prestige. The latter characterises the Kanya-Kubjas and is reflected in their *sabha* activities. It is, however, necessary to note that this is not unrelated to Sanskritisation, because the modern Kanya-Kubja elite, through their *sabhas* help maintain caste, kinship and marriage norms which are part of the Brahmanical value system.

On the whole Khare gives a valuable account of the complicated processes of cultural and social change occurring among the Kanya-Kubja Brahmins. He rightly concentrates on the bahavioural and cultural components of tradition and modernity instead of using them as meaningless blanket categories. Hence the book deserves the atention of serious scholars.

Present Glory

(Contributed)

The Lightning Campaign by Major-General D K Palit; Thomson Press, Delhi, 1972; pp 166; Rs 24.

PALIT wrote this book on the latest Indo-Pak war within weeks of the cease-fire. He himself acknowledges that such a rushed effort, so soon after the event, might not succeed in being objective.

The General has devoted a major part of the book to describing the events in erstwhile East Bengal. The emphasis is on the war in the East and the liberation of Bangladesh. The first chapter is largely a recapitulation of the events that led to the final break between Pakistan and the people of East Bengal on March 25, 1971. He reviews the Pakistani military buildup that took place in secrecy before the crackdown by the army on that fateful night in March. But he leaves many questions unanswered. How did the military buildup take place? Did Pakistani transport aircraft stage via Colombo and/or the British base at Gan? Were equipment and stores supplemented from SEATO bases in Thailand by a US airlift? When, if at all, did Indian intelligence learn of the Pakistani buildup of early March and how did the national leadership react to it? In fact, at one place, the author says that the Pakistani buildup was a well-kept secret and the Government of India was not to know of these measures until some time after the buildup had taken place. This ought to raise some eyebrows!

The author rightly points out that as the Pakistani army launched its repressive campaign in East Bengal it became clear that the political and strategic implications of this act would engulf the entire subcontinent. The repression was a direct threat to India's security and stability. Analysing the nature of India's initial response, Palit speak of the government's reluctance to resort to military action in March-April, 1971. There were strategic constraints in India's position *vis-a-vis* Pakistan, China and the United States and concern about the state of preparedness of the armed forces. Yet, Indira Gandhi did allow controlled military action by the Border Security Force.

One wonders why the scepticism about the state of preparedness of the armed forces when a sum of Rs 5,000 crores had been spent under the defence five-year plan, 1964-69, and another Rs 2,400 crores thereafter. If our defence services were in fact not ready something had gone wrong, since even in 1965 they were presumably ready to fight in the East, the threat from China notwithstanding. Possibly the author does not wish to go deeper into this question.

On the financing of our defence buildup the author has made a few strange statements. For instance, he states that the defence plan for 1964 depended on the promises of grants and credits from the UK and US. It is well known that the total quantum of the much publicised military aid given by the US in 1962-63 was a mere $ 40 million. So how could we rely on their promises in 1964? Palit also contends that although the expansion and re-equipment programme of the services was proceeding smoothly the Bangladesh crisis blew up before it could be completed. How long will we continue to make this kind of excuse?

Apart from the political and other considerations that led to regular military action being delayed until December, does not this delay call for a serious effort to cut down the response time? Is not defence contingency planning done precisely to cut this time down to the very minimum. After all the extra time allowed to the enemy strengthened its hands and those of its

allies too. What if the United States had actually moved into East Bengal before December 3 under a treaty clause? Fortunately for us, US humiliation at the hands of the Vietnamese may have helped to foil a possible US intervention or we could have been forced into a stalemate with 10 million refugees on our hands.

A chapter has been devoted to the Mukti Bahini. Its premise is that the Mukti Bahini could not succeed without a large degree of military support from a friendly power. It is rightly acknowledged that the full story of the Mukti Bahini has yet to be told and that full justice has not yet been done to its exploits. Nevertheless, the account of the Mukti Bahini's actions in inspiring. Perhaps it will form the theme of a later book.

Palit bestows fulsome praise on the Prime Minister for her understanding of what he calls "the nuances of conflict control as an ingredient of contemporary concepts of strategic confrontation". He aptly points out that the prime national security need, both in peace and in war, is the orchestration of the military with other instruments of statecraft — political, economic and social.

In the chapter, "Positive Posture on the Eastern Front", Palit has painstakingly explained the diplomatic, political and military preparations that the Prime Minister initiated through her advisers and the Chiefs of Staff. The stage was clear for action when the Indo-Soviet Treaty was signed. Only after China had thus been effectively checkmated, did the army begin to redispose itself and an Inter-Services Joint Command was set up at Calcutta. And then, Kamalpur, Boyra and Hilli became the escalation points of conflict.

Pakistan's attack and operations in the Western sector are dealt with comprehensively and the simplified maps explaining them are extremely well done. The actions in Kashmir, Punjab and Rajasthan are vividly described in the competent and effective style of this former Director of Military Operations. According to him, the Indian aim in the West was only to hold the front and carry out a stategic defensive operation executed through "tactically offensive-defensive" drives and punches. The reader at this stage may want to ask why our armoured division continued to be held in reserve till the end of the war? Would it not have been in our interest to attempt a limited blitzkrieg to shake the enemy's military machine in the West, particularly when we were hard-pressed at Chhamb?

Questions about the performance of the wide range of indigenously produced equipment also come to mind. Were the Vijayanta tanks tried out in strength and if so how did they fare? How did the Banglore-built HF-24 jet fighter-bombers fare?

The chapter, "Lightning Concept", is written with professional panache. The General pointedly refers to our objectives in the East and the flexible yet precisely scheduled plans for the drive to Dacca. The success of the operation depended on its completion within 12-15 days. All other planning was subordinate to this single aim. The core of the plan, as the author puts it, was to contain the enemy strong-points at the border while several powerful mobile thrusts, by-passing these strong-points, would cut the enemy's lines of communication and race ahead to the "Dacca Bowl". The plan was carried out with total success. Details of by-passing moves, airbridging by helicopters, naval support operations, air operations and parachute landings, are excellently narrated. The author has also narrated specific instances of the role played by the Mukti Bahini in helping the defence services to liberate Bangladesh and take 93,000 prisoners-of-war. This achievement has been applauded as stupendous. What was it due to? A popular cause, dynamic leadership and the brilliant exploitation of the dynamic concept of a *war of movement*, with the central objective as Dacca.

But in a book like this, written by a military thinker and professional soldier, the reader would have liked to see an analysis in depth. Several key questions are not even asked by Palit. For instance, would the quick success in the East have been possible but for the massive, all-embracing support of the population of Bangladesh? In the absence of this condition, could the performance have been repeated in the West, no matter how brilliant the concepts employed were? The role of the Mukti Bahini which not only tied down large numbers of the defending force but which by feints, diversionary moves and harassing actions succeeded in fooling the enemy as to the Indian army's real objective was crucial. The perfect, minute-to-minute intelligence made available by the local population, not only to the army command, but even to the battalion, company and platoon leaders was an immense help. So was the demoralisation caused to the occupation army by the Mukti Bahini and the people of Bangladesh who rose to defy and fight it through the tortuous months preceeding the war.

A whole chapter is devoted to discussing the war in the air and at sea. The author rightly says "the 1971 war was essentially an all arms (services) war". There are, however, some factual errors. For instance, it is stated that the Indian navy was one service which did not enjoy material superiority over its enemy. The fact is that it was quite decidedly superior to the Pakistani navy. Any analysis could prove this. Also the contribution of the aircraft-carrier, *Vikrant*, though significant in the East, was achieved under unusual circumstances, not likely to be repeated again. The *Vikrant* was moved in close to the shores of Bangladesh to carry out support operations only after the enemy's shore-based air force had been completely eliminated. It then operated with relative impunity and any assessment of the role of the aircraft-carrier must clearly bear this vital factor in mind.

But for the major shortcoming that this book reads like an eulogy, Palit has done a remarkably good and quick job. Those who read it, and it should be widely read, will look forward to a second one by the author, with an analysis in depth and a full and frank assessment of the performance of the national leadership, the decision-making apparatus for national security, the armed forces, the intelligence service and the Mukti Bahini. A book with a critical approach is eagerly awaited.

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On the Economic Theory of Socialism

An Exercise in Value Theory and Its Applicability to Indian Conditions

Arun Ghosh

In planning for rapid industrial growth consistent with the maximisation of social welfare, the planning process cannot rest merely on the setting of physical targets (indicative or otherwise). Nor can the objective be attained only by preparing a "shelf of projects", important as this approach is.

There is need, of course, to work out a set of consistent targets, in line with social need, and to prepare (or encourage the preparation of) a whole series of technical feasibility reports (for individual projects, again consistent with overall social benefit. But these cannot be translated into actual, working units without active, purposeful control of investment funds—and their direction. Nor can an inflationary rise in prices be prevented without the direct intervention of fiscal policy.

In both areas, we have so far generally followed the line of least resistance. The time has come when, if our experiment at a "mixed economy" is to succeed in promoting rapid growth, we have to make more vigorous use of these instruments to subserve the universally accepted economic criterion of maximisation of welfare.

[The views expressed in this article are personal.]

INDIA has chosen the path of a socialist society within a democratic framework, and has, therefore, chosen to work out the economic programme for achieving growth in the framework of a "mixed economy", where both the public and the private sectors are expected to play an important role in production. In this context, the contradiction that could arise as between the socialist and the classical economic theories of growth, and, therefore, in charting out an economic programme for a "mixed economy", need to be highlighted, so that the need for and the significance of certain required policy actions may be properly understood.

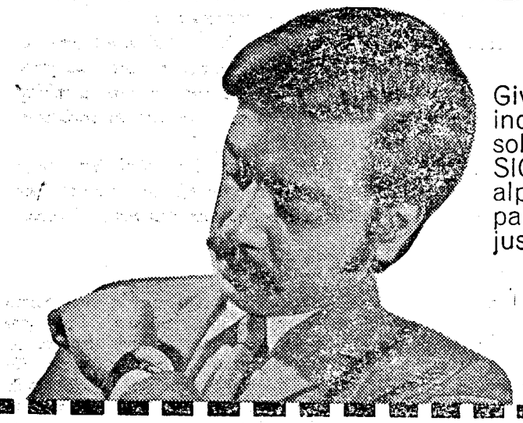
Conflicts and contradictions in a "mixed economy" could arise because the economic calculus has to be partly based on a macro model and partly on a micro model. The practical problem arises owing to the divergence, in all societies—and particularly so in a developing society—between market prices and the "real" value of products and factors, when adjudged in relation to the criterion of maximisation of social welfare. Economic literature is replete with recommended solutions for the problem, but no solution recommended so far has been able to take care of the problem either of correctly determining "accounting" prices of scarce factors, or even, on a more practical plane, of the problem of subsidisation involved in the use of accounting prices in a market oriented (mixed) economy.

Stated briefly, socialist theory would *maximise average productivity* of labour in the economy, rather than productivity in individual sectors. In a market economy, each individual unit would endeavour to maximise labour productivity, and classical theory would have us believe that the sum of maximal labour productivity in all production units would maximise labour productivity in the economy as a whole. In practice, however, this does not necessarily happen. Indeed, it can be demonstrated that such a development is highly unlikely in a "dualistic" economy. With the presence of large-scale unemployment, the introduction of modern production techniques in a limited area could, other things remaining the same, aggravate the problem of unemployment. With the prevalence of low labour productivity in most occupations, the introduction of a highly "efficient" technique of production over a limited range of output does not necessarily lead to an improvement of average labour productivity in the economy. Indeed, when such production techniques are superimposed on a sector with considerable employment in less efficient techniques—as they are wont to be in terms of private profit criteria—the establishment of the "efficient" unit or units may *appear* to be the beginning of modernisation of the economy when it may actually have the opposite effect. At the micro level, such units would clearly be highly productive and efficient, and give enormous profits to their owners. At the macro level, they could, by displacing employment in more traditional crafts and industries, where no alternative employment may be in sight, or possible at existing wage rates, *reduce* the average labour productivity in the economy rather than increase it.

This is not an unfamiliar process, as students of economic history are all aware. It is this process which has characterised the growth of pockets of industrial excellence in most underdeveloped countries, leading to little or no growth of the economy as a whole, at the same time aggravating the already uneven distribution of incomes. And in a large country like India, with many pockets of low productivity employment, it is to the danger of such illusory growth that we have to warn ourselves, in charting the programme of growth.

In short, therefore, it is the impact of investment on the *aggregative average labour productivity* in the economy which should be relevant in assessing alternative investment proposals, rather than the impact of any investment proposal singly, and in isolation. To give an absurdly simple example, if an automatic lathe with one labourer on the job were to produce 1,000 units of an item in a country having 100 labourers, and if 100 labourers with simple tools were to

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(e) Government of Maharashtra's Package Scheme of Incentives. (SICOM administered).

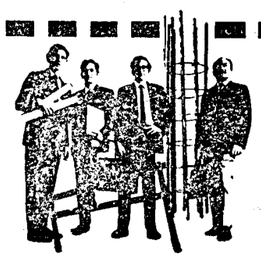
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produce 1,500 units of the same item, from the point of view of the employer, the former would undoubtedly be preferred (for all reasonable ranges of price attaching to the automatic lathe), though for the economy as a whole, the latter technique would give a higher average labour productivity. This is a point worthy of note for all who feel that the only prerequisite to the development of "backward areas" in India today is the establishment of large industrial undertakings, for which the short answer is the opening up of such areas for any and every type of investment by all and sundry. To reiterate, isolated pockets of industrial excellence do not lead to the growth of an industrial tempo, nor to any cumulative growth.

These are well known concepts. The extensive literature that exists on the "choice of techniques" for investment decisions is based on the use of "accounting prices" so as to maximise aggregate labour productivity by making use of surplus labour. But the difficulty in following this simple principle arises because in a market-oriented economy, there is no way to adopt labour oriented low productivity technology owing to the problem of subsidisation. The heart of the problem lies herein: with varying types of productive assets in existence—some efficient, some less efficient, some quite primitive—how does one arrange for factor payments which can make use of all such assets to maximise production in the economy, so as to enlarge the total national product, and thus to maximise "welfare"?

Hence the problems faced by the planner and the policy maker in a mixed economy. These problems are, first, that payments to factors based on market prices would require extensive cross subsidisation which would not be warranted in terms of the existing cost/price relationships and the technology adopted in terms of some set of "accounting prices"; secondly, that as long as "consumer sovereignty" is accepted, and unrestricted freedom of "choice" given to the buyer, while the distribution of income is highly uneven, the flow of investment funds (at any rate for private investment) would continue to be in directions which may maximise neither welfare nor long-term growth; and finally, even in relation to public sector investments, the choice of techniques based on the concept of maximisation of welfare is likely to get into difficulties when project appraisal at the micro level is based on the concept of the rate of return of each project or investment proposal singly, and in isolation rather than from the point of view of social benefit.

In short, the fundamental question that arises in the context of planning in a mixed economy is whether and to what extent the choice of projects—as well as of techniques where there is a choice—can really subserve the concept of maximisation of welfare, particularly if consumer sovereignty is accepted as a necessary guideline to the planning of production, and if, as is done today, project appraisal is left to the financial experts who may use the strict test of "financial viability" at existing cost/price relationships rather than in accordance with the criterion of the impact of the project on overall productivity in the economy.

The difficulty is genuine. Given the existing (uneven) distribution of income, and the choice of the democratic form of Government for bringing about a transformation of the economy, a certain degree of gradualness becomes a condition precedent to all plans and programmes for future production and investment.

Thus, in a mixed economy, there are certain clear dangers of our not being able to pursue either the socialistic theory of growth—which is based on the concept of maximum employment (and deployment of the entire labour force, maximising output, and thereby accelerating growth), and the classical approach which seeks to attain growth through investments based on market judgment as to prices and profitability (on the hypothesis that such investments would maximise productivity in each unit, and therefore, in sum, in the economy as a whole).

It is not difficult to lay down a pattern which can, in theory, help us reach much the same end result in a "mixed economy" as in a completely socialised economy. But such a pattern would call for strict discipline on the following aspects of economic policy:

(a) There must be a highly egalitarian tax system so that the existing spread in incomes is sharply reduced and narrowed down;

(b) There must be strict control over the *direction* of investments by the private sector; and

(c) There must be standardisation of simple consumer needs, and a very sharply accelerated production of such consumer goods, which may, if necessary, be subsidised.

As indicated earlier, there exist two dichotomies in every underdeveloped society, which may hamper planning for growth. First, the existence of a widely divergent structure of productive assets, not all of which can be put into use in a system based on market pricing; and secondly, the channelling of investment based on profitability of private investment, which depends, in a society with an uneven distribution of income, on a market demand which is not consistent with the maximisation of social welfare.

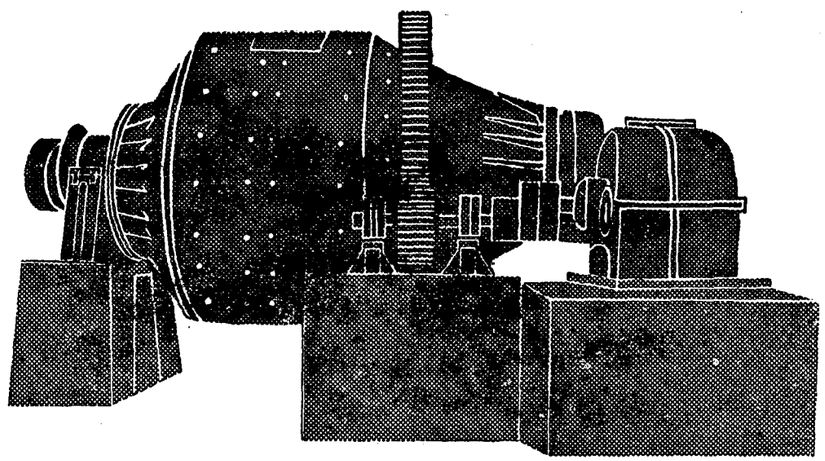
It is in the above context that one has to review the planning strategy adopted in India, in the framework of the various other socio-economic objectives of policy outlined by Government.

It is clear that the larger the area of public sector investment, the better the chances—at least in theory—that the objective of "growth with social justice" can be attained. Of course, even herein, there would still remain problems of "financial justification", particularly because the quantification of "social benefits" must remain largely arbitrary and therefore questionable. Partly, this is a matter of evolving concrete quantitative criteria for an evaluation of social benefits and costs. Partly also, this is a matter of changing attitudes among financial experts trained to study "booked costs" and "accrued profits" in any project. But, by and large, one could perhaps say that public sector investments could be attuned, without major difficulties, to subserve social need. (Here again, the use of labour saving capital intensive methods of production even where clear alternatives are available, stems only from conventional financial attitudes. But more particularly, it is in the *choice* of projects, as well as of processes, that the concept of raising aggregative productivity has to be brought to the fore).

But a very significant part of investment still takes place through the private sector, much of it in the field of industry. It is here that fairly sharp deviations are possible—and do occur—between plan objectives, official professions and private practice.

To take the history of industrial growth and industrial programming during the sixties, since the devaluation of the rupee in June 1966, there has been progressive liberalisation of industrial licensing policy (as well as of import policy)—even to the point that in the Fourth Five-Year Plan, there are now no fixed targets for industries except for those in the "core" sector, and by far the bulk of the re-

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sidual industrial field is left to the judgment of the private entrepreneur.

While these steps are certainly justified from the point of view of streamlining procedures (and because of the obvious difficulty of detailed, and worthwhile, examination of each proposal by the overworked official machinery detailed for this purpose), there does arise the fundamental issue that central direction of a large part of investment is no longer possible under this system. The system becomes, in short, an amalgam of two conflicting pulls—the criterion of maximisation of welfare through growth, and the criterion of consumer sovereignty under an acutely uneven distribution of income.

And in an economy where a significant part of investment in industry is to come from the private sector—the Fourth Plan provision for industry and minerals being approximately Rs 3,300 crores in the public sector and Rs 2,000 crores in the private sector—the present framework would appear to leave to the private sector the final decision-making role in regard to the broad pattern of industrial investment. The generally stagnant rate of industrial growth of late, in spite of the many facilities given to the private sector to increase investment and output, points, if anything, to two difficulties: first, that a quickening of private sector investment can only follow a major lead by the public sector; and secondly, that unrestrained freedom as to choice of the direction of investment reduces the growth impact of investments undertaken by the private sector.

What are the levers of action which one would then recommend, for ensuring that private investment plays a bigger part in bringing about growth with social justice? Can one say, for example, that there ought to be stricter control of investment through industrial licensing, far more rigorous than at present?

The short answer is in the negative. The levers of policy which can really effectively lead to growth—in line with the objectives of bringing about larger employment, as also of maximal aggregative average labour productivity—are, briefly, control over credit (and capital finance) and fiscal policies.

As is well known, for almost any major investment in the private sector, recourse is necessary today for long or medium term financial assistance from the IDBI, IFCI, ICICI, LIC, UTI and state financial corporations. In short, for much of the industrial investment programme in the private sector, the taxpayer's contribution is necessary through channeling of the funds with official institutions. These are few, and a change in their approach, their priorities and their lending policies is not difficult. It is through them that effective control over the direction of investment can be exercised, in the larger overall interest.

It may be argued that not all investors need to borrow from one or the other of the institutions created to supply long-term investment funds. For such units, there are again two levers of policy: interest rate policy of commercial banks and fiscal policy. Almost all productive units require commercial bank finance for their working capital (or at least part of it). There is no reason why the instrument of varying rates of interest should not be used both to stimulate investments in accordance with social needs (and to discourage lower priority investments), and to introduce a system of cross-subsidisation so that it is not the general taxpayer but only the privileged few who are required to support the system of widely divergent interest rates.

In the extreme case of an undertaking which calls for no financial support, either long-term or short-term fiscal levies, through excises and similar taxes, can moderate demand.

The important point to note is that with the present uneven distribution of income, there would still occur certain investments which may be deemed to be of relatively low priority in terms of the criteria defined earlier. To an extent, egalitarian taxation—through Estate Duties and Wealth Taxes—can narrow down the problem over a period. But even in the short run, fiscal and credit policies—and these alone, and not recourse to strict monitoring through industrial licensing — can help to moderate the investment programme of the private sector to subserve the overall national need.

Also, the present thrust for the rapid growth of small-scale industries helps in the achievement of the objectives outlined only in one very special way: by drawing on financial resources (and entrepreneurial talent) for industrial investment that would otherwise have been swallowed up by the familiar proclivity to trade and to invest in real estate; and for young professionals, in the services. In many directions, such investments could also be employment oriented, although it is by no means certain that modern small-scale industry necessarily has any lower capital intensity per worker than large undertakings—at least in many industries. But if control over direction of investment by large industries is difficult, it is even more of a problem in respect of small-scale industry, even though it does have many advantages other than those listed above, including the decentralisation of production and distribution.

What, then, emerges as a practical policy frame for achieving the objective of growth with progress towards a socialist society in a "mixed" economy? Leaving aside the problem of the large agrarian sector (where land reform and price support and procurement policies may be taken as the immediate remedy), the path of growth to be charted for the industrial sector needs to take note of the following policy requirements:

(a) As far as public sector investments are concerned, they need to be guided by three principles: first, investment in key and basic sectors of the economy has to be spearheaded through public investment; secondly, the processes (or techniques of production) to be employed must take note of the abundant supply of labour and the scarcity of capital; and finally, the criterion for assessment of project viability has to be based on social benefit rather than financial profitability. In the context of the last point, one has to note two somewhat divergent points. Maximisation of employment which may also be expected to maximise average labour productivity can be taken as a broad policy goal, and one need not await very refined cost/benefit calculations based on accounting prices, which are extremely difficult to determine and even more difficult to sustain in the absence of an elaborate programme of cross-subsidies. As against this, the pricing policy of public sector enterprises has also to take note of the need to raise adequate resources for investment. These two criteria could conflict with each other, and a satisfactory balance can only be found if a well thought out "incomes" policy is followed.

(b) As far as private investments are concerned, control over sources of capital finance and of credit can be used, in association with fiscal policy, for directing private investments into socially desirable channels.

In practice, this would mean laying down priorities, and the setting out of clear guidelines to financial institutions, as also the laying down of clearer principles for policies such as differential interest rates, than attempted so far.

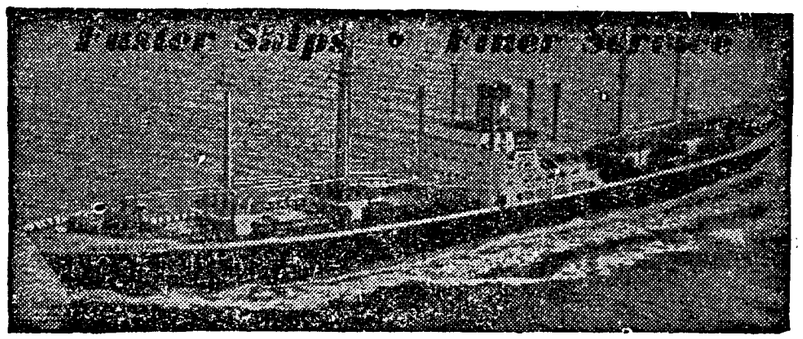
This does not mean that the system of industrial licensing is either redundant or without purpose. Industrial licensing can and does help in bringing about some selectivity and moderation in the direction of investment, and certainly a degree of control over the choice of location and choice of entrepreneur. But industrial licensing being at best a permissive tool, and generally non-discriminatory as to the use of scarce resources, cannot subserve the objectives of policy that are today of paramount importance.

There is one more area in which intervention in the operation of the market economy is called for in a "mixed economy", and this becomes necessary because the policies outlined above may not be adequate in regulating prices and production in the overall interest, in the short run. This pertains to the problem of control over the vast range of intermediate products which are required by key or basic sectors of production, and which are produced by private sector units.

Attempts have been made from time to time to control the prices of such products, but such controls have succeeded only partially, if at all, because distribution has remained in the hands of the private sector, so that, while it has been possible to regulate manufacturing profits, unwarranted profits have gone to the trade sector (which, incidentally, has been a major reason for a number of socio-economic ills of our present system). It appears to be necessary, therefore, to shift the present emphasis of regulation of monopoly production to effective regulation of restrictive trade practices. It appears to be necessary, therefore, to arrange for rational *distribution* of the products of industry, for which a significant degree of participation in internal trade would appear to be the answer. What the Food Corporation of India has been able to achieve in the matter of procurement and supply of foodgrains, and the STC and MMTC in the matter of imported raw materials, needs to be repeated for internal supplies of industrial raw materials and intermediate products produced within the country. But this is a subject which deserves more detailed examination and more careful formulation (in regard to specifics) than possible here in the present broad statement of principles. Be it noted also that such intervention may be necessary only insofar as the broad policy mix of capital finance, credit and tax policies are not adequate to resolve, in the short run, imbalances between the supply of and demand for intermediate industrial products. Perhaps, effective distribution policy could even be supplemental to monetary and fiscal policies even in the longer run.

Concluding Remarks

It would be seen that in planning for rapid industrial growth consistent with the maximisation of social welfare, the planning process cannot rest merely on the setting of physical targets (indicative or otherwise). Nor can the objective be attained only by preparing a "shelf of projects", important as this approach is. There is need, of course, to work out a set of *consistent* targets, in line with social need; and to prepare (or encourage the preparation of) a whole series of technical feasibility reports (for individual projects) again consistent with overall social benefit. But these cannot be translated into actual, working units without active, purposeful control of investment funds—and their direction. Nor can an inflationary rise in prices be prevented without the direct intervention of fiscal policy. In both areas, we have so far generally followed the line of least resistance. The time has come when, if our experiment at a "mixed economy" is to succeed in promoting rapid growth, we have to make more vigorous use of these instruments to subserve the universally accepted economic criterion of maximisation of welfare.



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Six Blind Men of Hindostan—II

A Study in Management of the Economy

Arthagnani

The Report of the Car Prices Inquiry Commission and the Supreme Court judgment on car prices mark an important landmark in the country's effort to run a managed economy. It is necessary to examine not only the immediate findings of the Commission but also the broader issues arising out of the whole process of judicial inquiry started by the application of Premier Automobiles Ltd to the Supreme Court.

This article examines the issues arising out of the Supreme Court judgment. In an earlier article, published last week, the author had analysed the report of the Car Prices Inquiry Commission.

RULE of law is central to a democratic system, and it is necessary that it should be observed. It is possible, on a political plane, to question its value to the vast mass of population living at near-subsistence levels; it may be argued that rule of law, under the present political system in the country, is a convenient arrangement for the bourgeoisie. But so long as the system lasts, the role of judiciary in maintaining the rule of law needs to be examined.

Premier Automobiles and others appealed to the Supreme Court against the government decision on fair prices fixed for their cars. The question arises whether Premier Automobiles was within its rights unilaterally not to observe a government order on Fiat car prices, and to collect from car-buyers an undertaking to pay an additional amount if the Court granted it a price increase. Unless a Court overrules a price-fixing decision, the government order on price is final, and given the system of registration for supply of cars in chronological order, would Premier Automobiles be justified in asking a car-buyer (who had possibly waited six years in a queue) anything beyond the government-fixed price—even if this is done in the form of an undertaking to pay a higher price if it is allowed? Was not Premier Automobiles holding its customers to ransom by this unilateral decision? And what would have been the legal position if a buyer on the chronological list had refused to sign the undertaking and was therefore by-passed in favour of a later registrant? It can be argued that the person by-passed could have challenged the legality of Premier Automobiles' demand in a court of law; but the fact is that a car registrant does not have the time or money to go to a court of law, where Premier Automobiles in any case would have brought a battery of lawyers to fight the litigant. [And, incidentally, the whole cost of such litigation, under the Sarjoo Prasad Commission's dispensation (VII/6.3 (iv) of the Commission's Report), would have been passed back to Fiat buyers!] In the meanwhile, while Premier Automobiles has got away with a price-rise dating from September 1969, other manufacturers are entitled to the price-rise from July 1970 only.

One can argue whether the government decision on car prices was a justiciable issue, considering particularly the fact that the relationship between the government and industry encompasses a wide spectrum of interrelated decisions, and no one issue can be decided in isolation of the other relationships. Yet on the application of Premier Automobiles and others, the Supreme Court did undertake to pronounce on one aspect of this relationship, and it has, therefore, to be be accepted as law — until the Supreme Court reverses itself or the Parliament legislates otherwise.

Procedure for Hearing

The Supreme Court having claimed the jurisdiction to hear the case, the question does arise: what should have been the mechanics of the hearing? And, secondly, what should be the considerations governing a decision on this case? While both these matters are fairly clearly defined in criminal and civil property matters, the issues before the Supreme Court in the Premier Automobiles' application were different in nature. Merely because a matter comes before the Supreme Court, it is not necessary that it should be put in the strait-jacket of procedures established essentially for criminal and routine civil matters. To arrive at a just decision in the present case, it was necessary to adopt a procedure suited to the nature of the case.

It soon became evident at the hearing that the Supreme Court itself was not prepared to examine the issues involved in the application. From the beginning the Court was trying to arrive at an agreed settlement, particularly on the appointment of a body to go into costs. If the Supreme Court decided to pass the work of cost-investigation and price-fixation to another body, using the Commissions of Inquiry Act, the procedure was tantamount to the setting up of a system of arbitration, with the Supreme Court acting as chairman. Significantly, in the USA where the Supreme Court exercises jurisdiction on anti-monopoly legislation, it hears the cases and gives decisions itself.

Expertness of Inquiry

Once the Supreme Court decided to refer the matter to an "expert" body, the question does arise: who should have constituted the expert body, and on what basis should it have done its work? The Supreme Court by its agreement (with the concurrence of the Government of India) to allow a new *ad hoc* body to be set up, sought to by-pass the Tariff Commission. This was unfortunate because the integrity or the competence of the Tariff Commission has not been impugned. Nor, given its experience in cost investigation of the automobile and *other* industries, could its expertise have been in doubt. Only the principles applied by it had been questioned. Given the limited time in which the inquiry was to be completed, resort to a body with experience would have been more valid. Had the Tariff Commission inquired into the price question, most of the elementary fallacies noticed in the Sarjoo Prasad Commission report could have been avoided.

One can also question the composition of the Commission that ultimately came to be appointed. The constitution of an *ad hoc* body, fresh even to the basic principles of the job it was supposed to be doing, was hardly expected to lead to a competent exa-

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mination of the points referred to it. The present Commission started *de novo* on the job; this is evident throughout the whole report. A body given the task of fixing a fair price goes into the history of the development of the industry, makes simple observations on accounting and technical principles and presumes to make suggestions on matters which were none of its business. Mercifully the Supreme Court ignores all these irrelevant observations of the Commission (except for a short reference to the level of taxation). And, all the while, the Commission complains about the shortage of time available to it to carry out its work.

The Supreme Court refers to the Commission as a body of experts. Apparently, however, the Supreme Court has not accepted all the conclusions of the Commission. There is in fact a hierarchy of opinions expressed in the various documents relating to the case; for example, the Commission overruled its Technical Team on the question of capacity of Standard Motors, only to find the Supreme Court (majority ruling) overruling the finding of the Commission on the subject.

The Supreme Court mentions that it was agreed that it "should direct deviation from the report of the Commission which was an expert body presided over by a former judge of a High Court only when it is shown that there has been a departure from the established principles or conclusions of the Commission are shown to be demonstrably wrong or erroneous".* This thought recurs later in the judgment: "The firm principle which we have all along followed is that the report of an expert body like the Commission should be accepted except where it has been shown to have demonstrably fallen in error on a question of principle or has completely ignored vital and material facts which, if taken into consideration, would have led to a different conclusion." One cannot understand how a body whose findings deviate "from established principles or are demonstrably wrong or erroneous" can be called expert. What is more, the expertness of the Commission apparently did not extend to simple arithmetic multiplication, as shown by the following: "There is an obvious error in the working out of the figures by the Commission. It is not disputed that a five-day working week meant 45 hours at the rate of 9 hours per day; whereas six-day working week meant 48 hours per week at the rate of 8 hours a day. The increase would be of 3 hours only during the week. It has not been demonstrated how this would justify the conclusion of the Commission."

* All quotations, unless otherwise indicated, are from the Supreme Court judgment in the case.

Extent of Delegation

Even if there was to be any delegation, is it proper that the Supreme Court should have delegated the *whole* inquiry? The inquiry clearly concerned two parts: investigation of cost and allowance of return. While the investigation of cost needed expert advice, how was the question of "return" capable of expert investigation or subject to delegation? Clearly "return" is a matter of incentive within the jurisdiction of the government. The government might in price-fixation want to allow a higher rate of return, for example, to steel than to automobiles to encourage investment in steel (though, unfortunately, neither the government nor the Tariff Commission has ever had the intelligence to use the return mechanism in this manner). The Supreme Court then could only have determined the cost of production and capital employed, and asked the government to add what it considered, within its policy framework, an appropriate return on capital employed in the automobile industry. Even if the Supreme Court felt an urge to pronounce on the return to be allowed, should it have delegated this part of the work also to the "expert" body? Could it not itself have applied its mind to this part of the judicial function?

Even if the Supreme Court decided to delegate the price-fixation issue to an outside body— one, moreover, which had no background of the issues involved—should the delegation have been so complete as to leave the whole matter entirely to the discretion of an *ad hoc* body without any long-term perspective or objectives before it? Had the Supreme Court consulted the relevant literature on the subject (including the Tariff Commission's report on Fair Selling Prices which led to the whole judicial process), it would have recognised the large number of issues involved in the investigation—on all of which the Supreme Court could have applied its mind and given guidelines to the Commission. For example, on what basis is car capacity to be determined? What are the norms to be used in determining cost of self-manufacture? How are bought-out components to be valued when the car assemblers pay different prices for the same components? Despite protestations about keeping in view the interests of consumers, no item of current cost was disallowed or pruned on cost considerations. Apparently, the cost of production was treated as a matter of addition of figures on cost vouchers, rather than a technically-determined process in which management decisions play an important role.

The Commission's investigations of cost of production show the many lacunae in its own thinking. The Commission clearly decided that the price inquiry was related to the question of car quality. Yet, on the ground that Hindustan Motors did not in the past use nickel anode and ECKO seal compound at all or to the specified standard, it did not allow Hindustan Motors the cost of these items. Since the price would apply to future output, should not the Commission have allowed the cost of these two items and required Hindustan Motors to use them to the specified standards in order to produce a reasonable quality car? By its decision, the Commission endorsed the continuance of practices which had led to a bad quality product; and evidently the Supreme Court has accepted this position. The Commission's treatment of depreciation is also subject to similar drawbacks. And on the issue of inclusion of minimum bonus in cost, the Supreme Court has preferred to use legal precedent [Jalan Trading Co (P) Ltd vs Mill Mazdoor Union] rather than management principles to arrive at its decision.

Determining Capacity

The Supreme Court blandly accepts the fact that manufacturers try to inflate their requirements when making applications for import licences: "There is a good deal of force in the suggestion of Mr Palkhivala that when such [import licence] applications are made the applicant is prone to give higher figures in order to obtain the maximum permissible quantity of the material sought to be imported. The figures are sometimes exaggerated as it is anticipated that they are not likely to be accepted and the licence would be issued only for a lesser quantity." The question then arises: if manufacturers make misrepresentations to obtain import licences, would they not make misrepresentations when making other demands, for example, a rise in the price of their product?

However, the Supreme Court skirts this issue by referring to the number of cars for which the gov-

ernment in fact issued import licences to the manufacturers in order to determine their capacity. This is peculiar logic, for capacity is a function of equipment—and not the government's decision on issue of import licences. If the Supreme Court had looked at the earlier history of the automobile industry, it would have found that the production of Fiat cars dropped from 5,700 in 1956 to 1,800 in 1958, mainly because Premier Automobiles had not carried out its obligations regarding the extent of indigenous content which it had earlier voluntarily agreed to. When the foreign exchange crisis overtook the country in 1957, the government had to cut import licences in order to spread foreign exchange rationally over different users. Would the Supreme Court have allowed Premier Automobiles a price on the basis of 1,800 cars which alone could be produced by the import licences issued, thus insulating Premier Automobiles from its own incompetence and failure to carry out its obligations? One cannot accept the logic that capacity for the manufacture of cars has to be determined on the basis of the amount of import licences issued.

Much has been made, both in the report of the Commission and in the judgment of the Supreme Court, of the fact that while automobile prices are controlled, prices of ancillaries are not. This reflects ignorance of price theory and economics. The demand for components is a derived demand, and their prices are determined by the price to be obtained for the final product. If it is not economic, under the price allowed for the final product, to pay a particular price for a component, then obviously such a component would not be bought at that price. The automobile manufacturers, by refusing to buy at fancy prices, can easily bring the ancillaries to their heels. Instead, by the present judgment, the ceiling on prices of cars has been removed, and in effect prices have been set free, enabling car assemblers to add on the prices paid by them for components—very often to their associate suppliers. So also the argument that the price should include (besides depreciation) an element for repayment of loans involves double-counting, and has little accounting or economic logic.

A Regime of Inflation

This is also evident in the system worked out by the Supreme Court for revision of prices every six months. Significantly, the wording of the Supreme Court judgment is such that only a price increase would be possible: "Six weeks prior to first January and first July the car manufacturers shall submit all the necessary data and proof for determining the *increase* claimed" (emphasis added). The Supreme Court has also provided that if the Government does not take a decision on such rise, the automobile manufacturers would be free to raise the price on their own. While one may welcome this compulsion on the Government to decide, is it right for the Supreme Court to ask citizens to take the law (as enunciated by it) into their own hands, and act on their own?

Moreover, the Supreme Court does not specify how data relating to fall in costs are to be obtained: at least the manufacturers are under no obligation to present such information. It would be possible for the manufacturers (and the Supreme Court has condoned, at least in respect of import licence applications, misrepresentations made by manufacturers) only to represent cost rises in individual items—for example, on bought-out components or raw materials—and claim a price-rise. How is the Government to judge within a period of six months whether costs on a large number of small items have fallen or not, whether labour productivity has risen or not, whether overheads have been spread over a larger output or not? Apparently the car manufacturers have got from the Supreme Court a one-way option for higher prices.

Yet even in countries which rely on the price mechanism and which have free competition internally and allow imports freely, the government (as in the UK and the USA) has felt it necessary to impose constant prices in order to reduce inflationary pressures in the economy. Taking the example of cars only, during the August 1971 price freeze, the US government refused to allow automobile manufacturers higher prices even for new and improved models introduced by them, including improvements required by government under its own safety regulations. Yet in a controlled economy like India, marked by lack of internal and external competition, manufacturers have been given a free hand to raise prices every six months by proving costs whose validity cannot be questioned.

Role of Policy

The final issue is: what is the legal basis for economic policy-making in this country? The Commission's recommendations have been so generous that Premier Automobiles has announced that it hopes to wipe out its three years' arrears of depreciation soon. And since all costs are to be allowed, the most inefficient producer will get the highest price. The government has already taken the Commission's formula to its illogical conclusion by announcing the price for Standard Herald at a level higher than that for Fiat — a conclusion from which even the inept Tariff Commission shrank in its price inquiry. All this is intended to perpetuate an irrelevance like the Standard Motors Company.

Yet, to what do these irrelevances owe an existence, except government policy? With free imports, or even with free licensing, none of the three manufacturers would survive, as two of them have found in the commercial vehicles market. Yet, manipulating their survival through the government machinery, they do not hesitate to question the government's policy when it does not suit them. The government's price control policy ought to protect consumers from being exploited in a sellers' market created by its own licensing policy; if the Supreme Court is to overthrow this policy by freely allowing price increases, what are the restraints left on manufacturers? Evidently, this is a one-way option which leaves the best of both worlds to the car manufacturers—a protected market (from both domestic and import competition) and a cost-plus basis of pricing. One now awaits an appeal by Hindustan Steel's management to the Supreme Court for a price rise to cover its losses which it should be entitled to recover through higher prices, being due, like those of the automobile manufacturers, to incompetent management of its units.

Perhaps this was the central issue in the whole inquiry. One need not question the validity of the Supreme Court's interpretation of its powers or its final right to interpret law as it exists. But what is the process by which the final judicial decision is to be arrived at? If the Supreme Court chooses to inquire into fair prices which are accepted by it as composed of "cost of production" and "return", should it not bring a judicial mind to bear on the accounting, management and technical problems involved in cost investigation? Should it not familiarise itself wth the literature that has developed in these sciences to arrive at a judicial decision on the issues before it? This was neither a criminal nor a civil property investigation but an issue in management science, and there was no reason for the Supreme Court to confine itself to references and arguments presented to it by the parties, as is evident from references such as that "we have not been shown any authority or principle..." (on the question of calculating depreciation), "we have not been shown anything..." (on the question of projected cost), and so on.

Judiciary and State Control

Significantly, the kinds of issues that the Court faces in India are not new to the judiciary. In the USA, with a written constitution and rule of law, the same issues arise. While the US constitution was drafted in the eighteenth century and the anti-monopoly legislation drafted in the late-nineteenth century (Sherman Act in 1890) and the early-twentieth century (Clayton Act in 1914), the US Supreme Court, in arriving at its decisions on cases under these Acts, has applied economic principles derived much later to deal with business practices which have evolved later. It is thus that so many issues—on size of units, role of conglomerates, all issues which did not exist in 1789 or 1890 or 1914—have been handled by the US judicial system. In many cases Supreme Court decisions have become models of thinking on the issues before it—and not reproductions of arguments of "learned" counsel and expressions of personal whims of commissions.

Significantly, the US political system has never accepted the argument that a judge, by the fact of being a judge, does not have views on the political and social system or that, if he has views on the system, these would not colour his judicial decisions. The US, as even the recent debate on Nixon's appointment of Carswell and Hainsworth on the Supreme Court showed, accepts that a judge's personal views go to evolve his judicial decisions.

The UK, and following it, India, have refused to face up to this issue. And yet the biases of the judiciary are hardly absent in the decisions taken by the judges: how else is one to explain the House of Lords decision on the Tate and Lyle reference? And yet we keep up pretences: while there is considerable opposition to a "committed" judiciary, apparently such opposition is only to a judiciary "committed" to one side; a judge who holds conservative views by that fact becomes not only not "committed", but even impartial.

A political system, which comprises the legislature, the executive and the judiciary, can survive only if it adjusts to the situation around it; it does not survive merely because there is a well-drafted constitution. The US is operating its system with a constitution drafted in the eighteenth century, when almost all of today's problems—industrialisation, traditional industrial monopoly, conglomerates, racial conflict—were not known. But the judiciary has interpreted the views of the founding fathers in the context of today's conditions and today's advances in the social sciences. This is how the US Supreme Court decisions have helped to adjust the constitution to today's conditions.

A political system is subject to the contrary pulls of conservationists and of changes constantly taking place in the social system. A judiciary is needed to hold a balance between these two forces. The judiciary needs to be conscious of the forces operating on the social system and the latest advances in the social sciences. If the judiciary is not to opt out of decision-making on these issues, its own awareness of the social system needs to be enhanced.

Restrictive Trade Practices

A N Oza

In the control of restrictive trade practices the Monopolies and Restrictive Trade Practices Commission has been vested with the status of a court of law. It has been entrusted with full powers of investigation—that is, not only the power to examine under oath any witnesses it wishes to and summon any evidence necessary for its investigation but also that to initiate investigations on its own without waiting for a reference by the government. More important, the Commission's verdict in a restrictive trade practices case is, like an order of a court, final and binding. Contravention of the Commission's order is a punishable offence, though the defendant can appeal against it to the Supreme Court.

The first case of restrictive trade practices just referred to the Commission by the Registrar of Restrictive Trade Agreements relates to the code of conduct adopted by eight tyre manufacturers under which they have agreed upon the minimum prices below which they will not sell their products.

As this is the first case of restrictive trade practices that has come up before the Commission, this note seeks to briefly evaluate the provisions relating to the investigation and control of restrictive trade practices contained in Chapter IV of the Monopolies and Restrictive Trade Practices Act.

UNDER the Monopolies and Restrictive Trade Practices Act, the MRTP Commission is entrusted with two main functions: investigation and control of monopolies (i e, dominant firms) and of restrictive trade practices. Its third function is to advise the government, when such advice is asked for, on whether or not a particular proposal for expansion, or for setting up a new unit or for merger, having implications of concentration of economic power, should be approved by the government. Insofar as the Commission's powers are very limited in relation to this last function, it should occupy less of the Commission's time and energy than its other two functions. However, throughout the two years of its working the Commission has been preoccupied with investigating proposals for expansion or setting up new units sponsored by large groups.

In matters relating to concentration of economic power the MRTP Commission serves purely as a consultant whose advice is not binding on the government and in all the major cases of this type referred to it so far its members have been divided among themselves about the scope of the investigation as well as the recommendations to be made. It is doubtful, therefore, that the Commission's efforts in this area will make an impact on government's policy or even on general understanding of the

problem of concentration of economic power. In view of this, it is heartening to find that the Commission is at last getting activated in a sphere — investigation and control of restrictive trade practices — where its efforts will be more effective.

In the control of restrictive trade practices the Commission has been vested with the status of a court of law. It has been entrusted with full powers of investigation — that is, not only the power to examine on oath any witnesses it wishes to and summon any evidence necessary for its investigation but also that to initiate investigations on its own without waiting for a reference by the government. More important, the Commission's verdict in a restrictive trade practices case is, like an order of a court, final and binding. Contravention of the order is a punishable offence, though the defendants can appeal against it to the Supreme Court.

The first case of restrictive trade practices referred to the MRTP Commission by the Registrar of Restrictive Trade Agreements relates to the code of conduct adopted by eight tyre manufacturers under which they have agreed upon the minimum prices below which they will not sell their products. The agreement thus restricts within limits price-competition in the sale of tyres. The Commission is to examine whether or not this restriction of competition by agreement is against the public interest. If it finds that it is, it will order the agreement to be terminated or modified.

As this is the first case of restrictive trade practices that has come up before the MRTP Commission, this note seeks to briefly evaluate the provisions relating to the investigation and control of restrictive trade practices contained in Chapter IV of the MRTP Act.

Following the British anti-monopoly laws, the law relating to the control of "monopolistic trade practices" in the MRTP Act is different from that relating to control of "restrictive trade practices". Monopolistic trade practices can better be described as "dominant firm practices". They refer to the behaviour of an individual firm or an oligopolistic group of not more than three firms by reason of the fact that the firm's (or the oligopolistic group's) market share is dominant. Restrictive trade practices refer to concerted action undertaken by a group (or association) of two or more firms in pursuance of a voluntary agreement to avoid competition regardless of whether the market share of the member firms is or is not dominant. For instance, if the textile millowners' association by voluntary agreement fixes common prices for certain competitive varieties of cloth, it would be regarded as a restrictive trade practice but not a monopolistic trade practice since none of the mills may be a dominant or monopolistic undertaking. (Unfortunately the definitions of these two types of anti-competitive practices given in section 2(l) and section 2(o) of the Act fail to bring out this distinction as both the definitions are set out in terms of their effects, which are not dissimilar.)

For the control of monopolistic trade practices (i e, behaviour of monopolistic undertakings) the MRTP Commission enjoys powers of investigation, but not of enforcement. It can investigate a case of monopolistic practices either on its own initiative or on a reference made by the government but its decision is only recommendatory and not mandatory. The power to take final action on its findings rests with the government.

The procedure laid down in the Act for investigation and control of restrictive trade practices operated through voluntarily accepted restrictive business agreements (or arrangements) is, briefly, as follows:

(i) All restrictive trading agreements which satisfy the conditions of registrability are to be compulsorily registered with the Registrar of Restrictive Trading Agreements.

(ii) From amongst the registered agreements as well as from amongst those that are registrable but not registered, the MRTP Commission will select individual agreements (or classes of agreements) for case-by-case investigation and adjudication. The Commission will initiate investigation upon application by the Registrar or the government or upon a complaint received from the public (i e, a group of 25 consumers or a trade association).

(iii) Till the contrary is established, a registered or registrable agreement is *ex hypothesi* against the public interest. Hence the onus is on the parties to a restrictive agreement to justify before the Commission that the agreement is not against the public interest. The circumstances in which an agreement is not deemed to be against the public interest are laid down in Section 38 of the Act.

Before the provisions of the Act can be made applicable to a trade practice two questions need to be answered in the affirmative:

(i) whether, in fact, an agreement exists; and,

(ii) if it exists, whether or not it is registrable under Section 33 of the Act.

The term 'agreement' is defined as broadly as it is in the British Act of 1956. Section 2(a) defines 'agreement' in a manner as to include any agreement, arrangement or understanding irrespective of whether it is, or is purported to be, legally enforceable. Though not specifically stated, it can be presumed that whether an agreement (or an arrangement) is written or not is also not material. The question whether, in fact, an agreement exists or not is a question of law as well as of fact. Whereas the existence of an agreement can be established without much difficulty from the evidence of documents in possession of the parties concerned, the proof of existence of an 'arrangement' raises complex questions of law and fact. For, in proving the existence of an arrangement (e g, an arrangement of "price leadership" whereby one firm, the price leader, leads in price changes and others follow) one has to rely upon circumstantial evidence relating to the business behaviour of the parties involved and the motives underlying their behaviour.

Neither the British Act of 1956 nor the Indian Act lays down, expressly or implicitly, what constitutes an "arrangement" (or understanding). However, the meaning of an arrangement can be interpreted from the case law developed in Britain. In the case of British Basic Slag's application, the court held that an arrangement could be deemed to have existed between the steel companies concerned because the parties had communicated with one another in some way and consequently each had intentionally aroused in the others expectation that it would act in a certain way. Further, in the Court of Appeal in the same case, Diplock L J held that an arrangement is something whereby parties involved accept mutual rights and obligations. He gave the following illustration as a test for establishing the existence of an arrangement: There might be an arrangement between A and B if B were intentionally induced to act in a certain way by A's representation that A would act in a certain way, even though B never communicated with A at all and was at all times legally and morally completely free to act as he pleased.

The scope of what constitutes an agreement is further extended by Explanation II and III of Section 34. Explanation II states that where an agreement is made by a trade association it is deemed to be made by all persons (or firms) who are members of it as if each person (or firm) were a party to the agreement. Explanation III states that where specific recommendations, express or implied, are made by a trade association with respect to the action to be taken or not taken by its members in relation to any matter pertaining to their trade, then the constitution of the association would be treated as an agreement as if it contained a term whereby each member agreed to comply with its recommendations.

The provisions of the Act relating to the control of restrictive trade practices are applicable only to those business agreements which are subject to registration under Section 33(i). Under this, section, any restrictive agreement is registrable which relates to a 'restrictive trade practice' and which falls within one or more of the categories of agreements listed in sub-section (a) to (l) or Section 33(i) Thus there are two sets of conditions the satisfaction of which make an agreement registrable:

(1) The agreement relates to a restrictive trade practice as defined in Section 2(o). According to Section 2(o) a trade practice is deemed to be a restrictive practice if it has or is likely to have effects of: (a) restricting, distorting, or preventing competition; and in particular of (b) obstructing the flow of capital or resources; or (c) bringing about manipulation of prices, conditions of delivery, or affecting the flow of supplies in a market in such a manner as to impose unjustified costs or restrictions on the consumers.

(2) The agreement falls within one or more of the categories listed in Section 33(i). This list includes agreements which

(a) restrict in any manner persons or classes of persons to whom the goods are sold or from whom the goods are purchased;

(b) require a purchaser of goods to purchase some other goods (tie-in sales);

(c) restrict in any manner the purchaser from acquiring or dealing in any goods other than those of the seller (exclusive dealing);

(d) require parties to purchase or sell or tender for sale or purchase only at prices or on terms agreed upon (common or minimum price fixing);

(e) require parties to allow concessions or grant receipts by way of discounts, rebates, or credit, etc, in connection with their dealings;

(f) require distributors or sellers to sell goods on condition of maintenance of resale prices except when the stipulated prices are clearly stated as only minimum resale prices;

(g) limit, restrict or allocate any area or market for supply of goods or withhold output;

(h) restrict or prohibit the employment of any method, equipment or process in production;

(i) restrict without justification any trader from membership of an association.

That an agreement is one relating to a "restrictive practice" [i e, it satisfies the criteria of 2(o)] is the *necessary* condition for its registrability. The *sufficiency* condition is that it falls within one or more of the above categories. The wording of Section 33 is such that an agreement, even if it belongs to one or more of the categories given in Section 33(i), is not registrable if it is found that it does not relate to a restrictive trade practice within the meaning of Section 2(o). Moreover, because Section 2(o) defines a trade practice as restrictive in terms of its effects, for the purpose of finding out whether or not an agreement is a restrictive practice what needs to be examined is not the *motive* with which the agreement is made but the *effects* that it produces or is likely to produce. Hence the question of whether an agreement is or is not a restrictive practice is not only a question of law but also of fact — that is, facts relating to the actual or possible effects of that agreement on actual or potential competition, flow of capital and resources, prices, conditions of delivery and flow of supplies.

It is clear that Section 33 of the MRTP Act laying down conditions of registrability is very carelessly drafted. The drafters, presumably carried away by their zeal to define every term employed in the law, had not realised that defining of a "restrictive trade practice" as given in Section 2(o) was not only unnecessary for the purpose of roping in most restrictive agreements but would hamper the application of the conditions of registrability. The fact that two conditions of registrability need to be satisfied would mean that the parties to a restrictive agreement can afford not to register it on the ground that, in their view, the agreement in question does not constitute a restrictive practice within the meaning of the effects described in Section 2(o) even though their agreement falls within the categories listed in Section 33(i). The onus will thus be on the Registrar of Restrictive Agreements to establish that the agreement is in fact registrable and for this purpose he will have to go into the effects of the agreement. A lot of time may thus be wasted in merely establishing the registrability of an agreement rather than in examining its effects on the public interest. In fact, the effects in terms of which Section 2(o) defines a restrictive trade practice can best be considered while finding the agreement's effect on the public interest rather than in proving its registrability. To make investigation and control of restrictive trade agreements effective, the loophole provided by Section 2(o) needs to be plugged by the deletion of the Section from the Act.

Another major drawback of the registration provision is that the list of categories of registrable agreements set out in Section 33 covers only those types of business agreements in which the intention of the parties is clearly identifiable and the restrictive effects of the agreements are transparent. As a result, several important forms of agreements are excluded from registration and investigation, even though in their effects these agreements are often, if not necessarily, restrictive of competition — for instance, agreements imposing standardisation of products, agreements for sharing price information (open price agreements) and agreements for sharing of patented processes or technical co-operation. The British experience (in, for instance, the tiles, linoleum and fibreglass cases) suggests that agreements for standardisation, patent-sharing, or technical co-operation, though ostensibly made for purposeful co-operation, may result in restriction of competition, particularly in oligopolistic market conditions.

Similarly, the omission of "open-price" agreements from the registrable categories is a serious one, for even in apparently non-collusive oligopolies the edge of price competition is blunted by conscious parallelism in price policies resulting from the adoption of open-price agreements. In Britain agreements for sharing price information or open-price agreements were non-registrable till recently since they are ostensibly non-restrictive in that they impose no explicit negative obligation on the parties. But, as a result, in quite a few British industries, particularly those marked by oligopolistic conditions, firms tended to restrict price competition through open-price agreements since they had found that under the 1956 Act their chances of successfully defending a registrable restrictive agreement were meagre. It was because of this that in 1968 the Act was amended to make open-price agreements also registrable. Those who drafted the MRTP Act in India seem to have missed the lesson of the British experience, though they have borrowed the law relating to restrictive practices wholly

from Britain.

Once the registrability of an agreement (or arrangement) is established, the MRTP Commission will, on a reference made by the Registrar, investigate and adjudicate whether or not it is against the public interest in terms of the criteria laid down in Section 38. Following the British practice, it is expected that the Commission will act as the court, the Registrar as the prosecution, and the parties to the agreement as the defendants. Section 38 lays down two sets of tests of "public interest" and for an agreement (or practice) to pass muster it must clear both the tests. The first set of tests lists eight specific circumstances in which restriction of competition is deemed to be beneficial to the users of the commodity involved or to the public in general. Briefly stated, the defendants are required to satisfy the Commission that the restrictive practice embodied in the agreement in question is desirable for one or more of the following reasons: (i) it protects consumers from injury; (ii) it confers some specific benefit to the consumers; (iii) it creates a countervailing power to obtain fair terms from a predominant buyer or seller; (iv) it avoids unemployment; (v) it maintains and promotes export earnings; (vi) it counteracts measures to restrict competition taken by a person (or firm) not a party to the agreement; (vii) it secures the continuation of a restrictive agreement already found by the Commission to be beneficial to the public interest; and (viii) it does not directly or indirectly result in reduction of competition to any material degree in any trade. The second test given in Section 38 requires the defendants to further establish that the benefit derived by the public in terms of one or more of the above circumstances is substantial enough to outweigh any detriment to the public interest that result from the agreement.

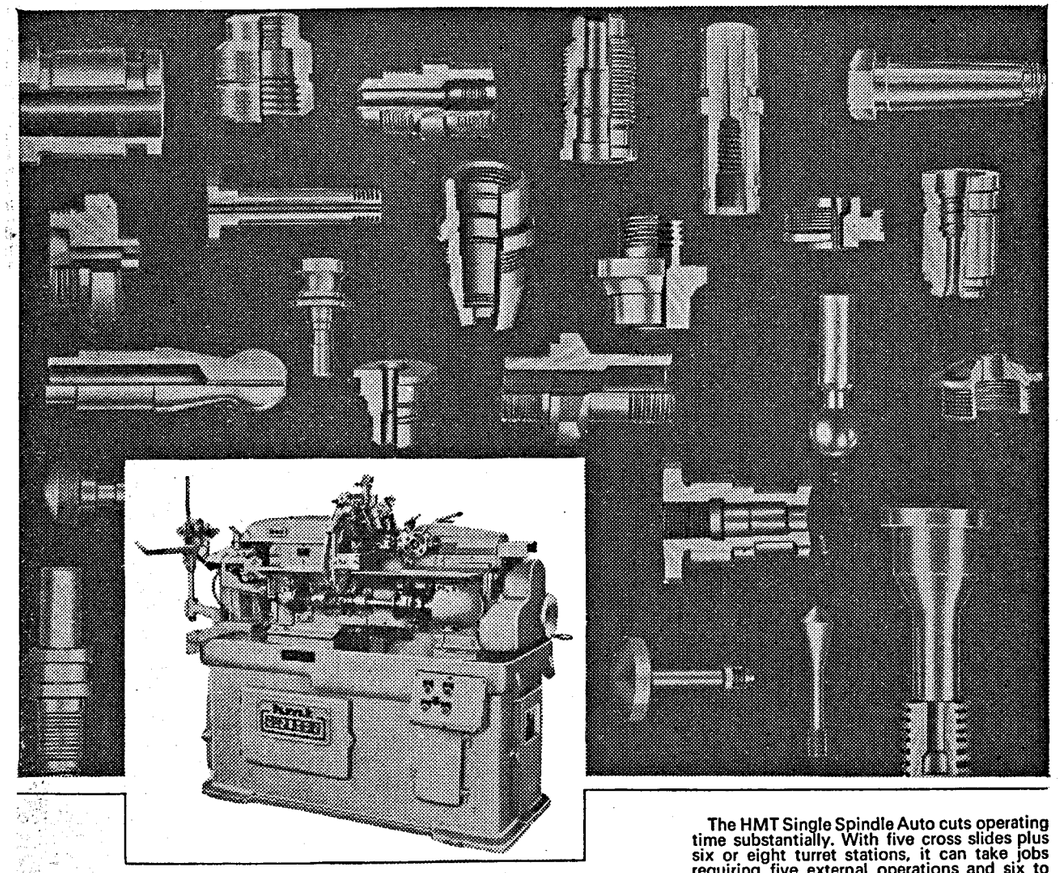
It is clear that the criteria of public interest listed in Section 38 are such that their satisfaction will involve a considerable amount of economic analysis and speculation. The defendants as well as the Registrar will have to argue in terms of the hypothetical situation that would exist in absence of the agreement in question. That is, the Commission will have to compare the actual situation created by the agreement with the economic 'model' of a hypothetical situation in the absence of the agreement. Not only that, it will have to choose between two hypothetical 'models' — one, a rosy one, presented by the Registrar and the other, a grim one, presented by the defendants. No doubt as has happened in England, cases of restrictive trade practices will provide very lucrative work for model-building economists. The Commission will have to sit through long sessions of exposition of applications of various technical economic concepts. And yet for all that, in the Commission's verdict the subjective predilections of the members will play a major role.

The other serious drawback of a law for control of restrictive practices based on the 'abuse' principle on the British pattern is that it involves case by case investigation of each individual restrictive trade agreement instead of inquiry into a particular kind or class of restrictive trade practices. For instance, if there are a number of agreements the purpose of all of which is to fix in one manner or another common or minimum prices, then the law requires the Commission to investigate each of these agreements individually and to declare, in the case of each, whether or not it is against the public interest. The Commission is not asked to investigate and decide, on the basis of evidence before it, whether or not agreements for common or minimum price fixing constitute a practice which is in general against the public interest. The result is that while the practice of common or minimum price fixing may be declared illegal in a particular trade or industry (e g, motor tyres) because the Registrar happens to bring that particular trade agreement before the Commission, in another trade or industry an agreement for common pricing will continue to be legal despite having similar effects till the Registrar finds time to bring it before the Commission. At the end of several years of costly investigation of a number of such agreements it may be found that almost all minimum or common pricing agreements are against the public interest. From the point of view of the firms having such agreements, they will have no assurance about the legality of their agreements till they come up before the Commission.

This is a lesson from the British experience that we have failed to learn. Between 1948 and 1955, the British Monopolies Commission examined a variety of restrictive trade agreements and on that basis it was asked to make a general report on the different classes of restrictive practices involved in these agreements. The majority recommendation was that the relevant practices should be declared illegal *per se* with a narrowly defined proviso for exemption so that not only would firms know for certain what is and is not illegal but the investigating authority would have to deal with only a few agreements in respect of which exemption is claimed by firms. The minority, however, felt that since their investigation had not covered all branches of trade and industry the practice of case by case investigation and adjudication should be continued. It was on this minority view that the British Act of 1956 was based. It rested on the assumption that a reasonable number of the agreements examined would be held to be 'meritorious' or 'beneficial'. But after a decade of expensive and time-consuming investigations, it was found that the Restrictive Practices Court had quashed as detrimental to the public interest all but less than 2 per cent of the agreements brought before it. Many more agreements had been terminated by traders on their own on the ground that proving a restrictive practice to be beneficial to the public interest would be difficult. Certainly, there is nothing in the British experience to justify the objection to the *per se* illegality principle, with a narrowly defined proviso for exemption to take care of rare 'beneficial' case.

However, it may be too soon to expect the government to introduce basic changes in the MRTP Act. What is significant is that at last the MRTP Commission has been activated in this important area of anti-monopoly policy. The Commission's deliberations on the minimum pricing agreement among tyre manufacturers will be significant because they will put to test many assumptions on which the government's micro-economic policies work. Ostensibly in the interests of holding the priceline and fulfilling-production or export programmes, the government has itself encouraged the formation of trade associations in many industries and these associations have in effect worked as respectable cartels. Not only that, when the output or price situation in a particular industry attracts adverse public attention, the government has actively encouraged a regime of administered prices in the name of voluntary control. Cloth and vanaspati are two cases in point. In that sense, tyre manufacturers are doing on their own what other industries have been required to do by the government. Just because the government encourages voluntary price controls based on agreed 'cost-plus' formulae does not mean that the restriction of competition and the resultant accommodation of high cost producers are necessarily in the public interest. The assumption underlying these price policies at the micro level is that, in an inflationary situation, administered prices tend to be lower than competitive prices. But the way trade and industry associations work out cost-plus formulae surely does not justify this assumption.

Seen in this context, investigation of restrictive trade agreements by the MRTP Commission will pose a challenge to the government's present thinking on price and output policies.



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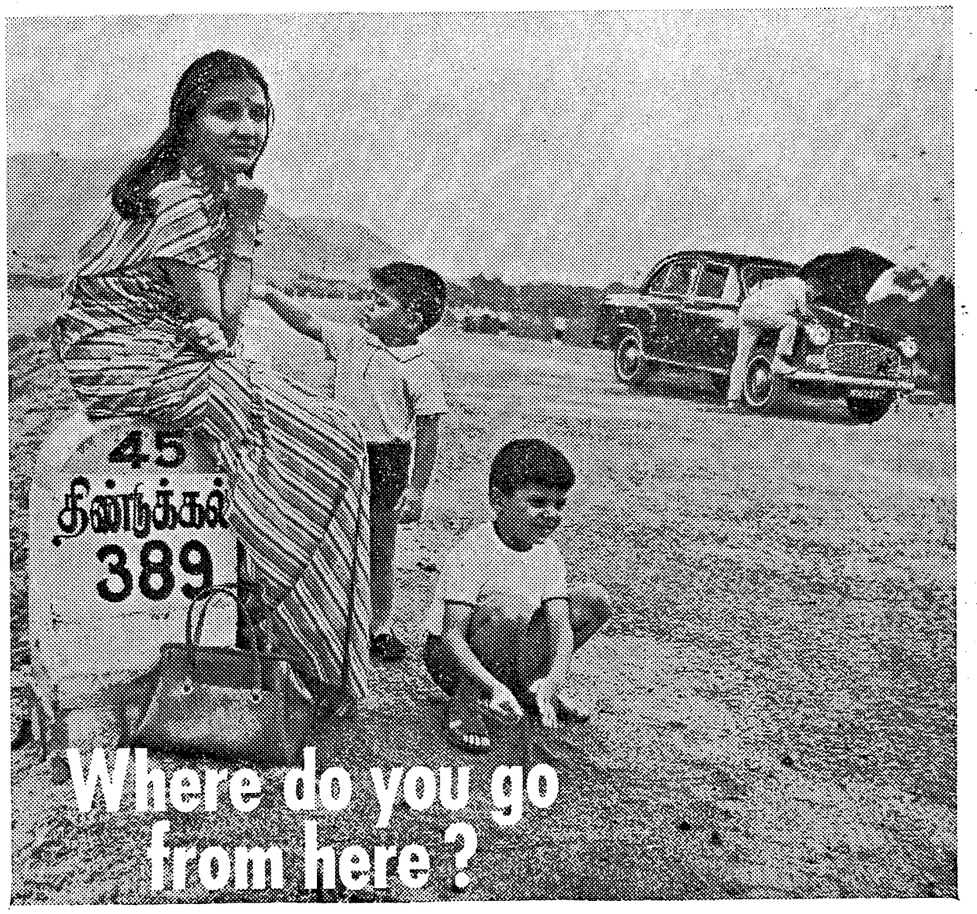
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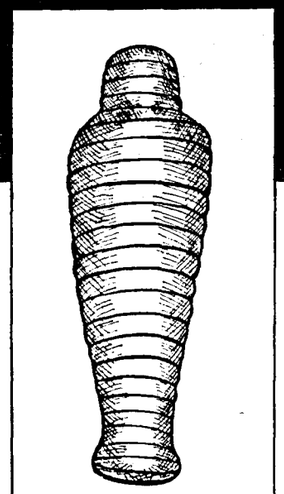
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The Politicians' Election

THE ensuing poll to the state assemblies can be best described as the politicians' election. It has altogether little to do with policies and programmes and altogether too much with personalities and factions. It may be objected that all elections are more or less like that and this one is not all that different from any of the earlier ones. This may well be true. But last March the Congress party's pretensions to appealing to the voters on the strength of its hastily put together economic slogans were taken seriously by many. No such pretensions are offered this time. There is the glory of the Bangladesh campaign; also, the promise of stability, the value of which has been vastly enhanced to the newspaper-reading and radio-listening voter by what he reads and is told about the way things are going in Pakistan. But basically the appeal is different. It is that this party is in power in New Delhi with a smashing majority in the Lok Sabha; and it is going to be in power in the states as well; so don't you want to be on the winning side?

Certainly, that is how the politicians themselves have approached the election. In state after state the opposition parties' hopes of doing a little better than they expected to are hinged on the intercession of those who sought Congress tickets and failed. Indeed, the Congress party's problem has been that the state assemblies are not somewhat larger than they are. If each of them had, say, 25 per cent more seats then so many more aspiring servants of the people could have been found space on the bandwagon. That they have not been is not, however, too serious a problem. Even if some of them do manage to get elected, they can if necessary be persuaded to return to the fold, since they will have nowhere else to go.

The opposition either simply does not exist or, where it does, is barely distinguishable from the Congress. The voter in Gujarat and in Mysore, for instance, is being called upon to choose essentially between the Congress(R), the Congress (O) and the Congress (Ex). And the choice can be perplexing. The Congress(R) had taken to task the then Congress(O) government of Hitendra Desai in Gujarat for its failure to firmly put down the communal riots of 1969 in Ahmedabad. But recent newspaper reports have it that one of the activists in the riots who had been honoured with the title of "dharma vira" by the local Hindu Mahasabha is a prominent campaigner for the Congress(R) candidate — who is a chief ministerial aspirant — from the Rakhial constituency in Ahmedabad!

The Jan Sangh has made a studied attempt to project itself by setting up an impressive number of candidates in a number of states. While this is unlikely to result in any unexpected harvest of seats, it may create openings for future political work by the party in some new areas. Recent experience in UP and Punjab, however, shows that the political bases of the Jan Sangh fall relatively easily to determined assaults by the Congress.

The other opposition parties have not approached the elections even in this spirit of making a long-term political investment. The CPI(M) is effectively fighting the election in only a single state, West Bengal. Even in a state like Andhra it is contesting only 32 seats in a House of 287. In West Bengal, as successive reports from our Calcutta correspondent have shown, the party has been subjected to organised political terror with the connivance of a pliant Governor's administration. But the party's political weakness in the rest of the country, except Kerala, has left it defenceless against such tactics and reduced its leaders to petitioning the Governor and the Prime Minister. It is significant that in not a single of the country's cities outside West Bengal has there been the slightest murmur of protest as CPI(M) cadres in West Bengal have been systematically assaulted, incarcerated or killed. By barricading itself in West Bengal (and in remote Kerala) the party has painted itself into a corner politically. If it fails to win the elections in the state, it stands to lose its political base there. On the other hand, if it does win, it is possible for the central government, given the lack of support for the CPI(M) in the rest of the country, to frustrate its effort to implement any of its policies or even to run the government for any length of time. Given this situation Jyoti Basu's threat of doing a Bangladesh in West Bengal must be treated with the same cynicism as the Congress party's claims to banish poverty.

The elections may well in the end produce stability — for a period of time. To that extent it can be said that, in contrast to the 1971 Lok Sabha elections, the Congress is being more honest in what it is promising the electorate. Of course, it may be asked what this stability is worth to very large numbers of our people. Not very much, it is true. But it is upto those who hold this view to offer a credible alternative to Congress stability. This they very definitely are not doing in this election.

Pakistan

Where to ?

A Correspondent writes :

MORE than two months after Bhutto came to power his lot does not seem to be any better now than it was in the initial stages. The widespread disturbances in Pakistan in the wake of the surrender in Bangladesh and the ceasefire in the West hastened the fall of Yahya Khan and ushered Bhutto in as the new president and chief martial law administrator. Immediately afterwards, organised industry in the country had to cope with serious labour demands. Although there is no news lately about more strikes by labour, the situation is by no means under control. Even more serious are the strikes by policemen in various parts of the country, including Lahore, Peshawar and Hyderabad (Sind). Besides this, there are reports of some NCOs and technicians in the army and the air force also resorting to demonstrations and other forms of direct action in order to redress their grievances.

In the North-West Frontier Province and in Baluchistan, the issue of autonomy for the provinces is assuming the same crucial aspect that it did in Bangladesh in the years just before 1970. Indeed, as in Bangladesh then, even though the top leadership of the regional party — in the present case, the National Awami Party (NAP) — is still taking a moderate stand on the issue, the second-ranking leaders and the grass-roots workers of the party are openly asking for radical changes in the body-politic of Pakistan. It is interesting to note that the NAP, as the second most popular party in Pakistan, is now in the same position that Bhutto's People's Party was in undivided Pakistan. But Bhutto is not ready to concede the same rights and status to the NAP that he had earlier demanded for himself and his party.

Even though Pakistan is ruled today by the leader of the majority party, the government of the country has still not taken any democratic orientation — either in form or in content. Although the provincial assemblies are supposed to meet later this month, it is not clear what their relationship will be with the provincial governors who are also the martial law administrators of their respective provinces. There is no progress towards enacting a constitution for the country and the national assembly is not even slated to meet in the foreseeable future.

It is undeniable that the present government in Pakistan can claim democratic legitimacy at the moment, perhaps for the first time in the history of the country. Despite this, it is becoming clear that Bhutto prefers to wear his other hat, that of the chief martial law administrator, now that he has risen to power. He is making little use of his party's resources in organisation and manpower. There is no effort at carrying the public with him through activising his party cadres.

It is true that not much can be expected in the space of two months. However as things stand, one does not notice even a start at tackling the problems that the country faces, let alone any concrete steps towards their solution. In fact, the few steps taken towards the fulfilment of the earlier populist slogans of the party have been quietly given up or back-tracked. Of those arrested from the notorious twenty-two families in the first flourish of the use of power, most or all have been quietly let out, even though the avowed purpose of their arrest — return of the money hoarded abroad — is nowhere near accomplishment. Even the supposedly radical land reforms announced this week are likely to turn out to be quite innocuous in practice. (The military men are already exempt from their purview.) In fact, in all these 'reforms' there seems to be more a desire to dispossess personal and political adversaries than any urge for social change.

Yesterday's drastic changes in the leadership of the armed forces — with Tikka Khan, 'the Butcher of Bengal', being made the new chief of army staff — tend to show that Bhutto is not even within sight of being a free agent, despite being the supreme martial law administrator. The military machine in Pakistan is still substantially intact and still disproportionately influential in the body-politic of the country. In such a situation, a by now standard recourse in Pakistan to the usual hate-thy-neighbour rhetoric coupled with the strengthening of the military with foreign weaponry may fetch him the loyalty of the traditional feudal-military power base in Punjab. But this will be at the cost of the support of the students, the urban and the rural poor, the middle classes and the professionals, who were instrumental in giving him a majority in the election and consequently helping him to attain power. More ominous, perhaps, is the Frontier leader, Wali Khan's, reported statement that he will not allow his people to be bullied by Bhutto. Does all this add up to another step towards the further dismemberment of Pakistan?

Banks

Back to Conventional Patterns ?

WINDOW-DRESSING is a respected and widely practised art among bankers. The law allows banks to conceal bad debts and profits and much besides. Anticipating that banks' profits for 1971 may turn out to be relatively handsome, the Reserve Bank is said to have sent out special instructions about their concealment. For their part, banks extend their window-dressing beyond what is allowed, or required, by law. Thus it is common practice for banks to swap deposits in the last few days of the year to boost the deposit figure shown in their balance-sheets.

Or, again, take the opening of new bank branches. According to figures released by the Reserve Bank in January, commercial banks had opened 1,242 branches in the first 10 months of 1971. Information on this subject for the whole of the year has been now made available and this shows that a total of 1,805 branches were opened in 1971. In other words, 563 branches were opened in the last two months of the year, giving a monthly average of 281 new branches which is more than twice the average of 124 for the first ten months of the year. This is, to say the least, a remarkable achievement considering that banks are constantly cribbing about organisational and manpower bottlenecks to rapid branch expansion. Are the complaints exaggerated or do a large number of the new branches consist (for the moment) of sign-boards and little else?

Even so, the pace of branch expansion is visibly slackening. The average of 150 branches per month opened in 1971 is substantially lower than the figure of 178 achieved in 1970. And, according to the Reserve Bank's perspective plan for branch expansion, the average will decline further to 139 in the next three years. This in itself would not be so significant but for two related developments. First, the commercial banks' lending operations away from the cities and towns have unmistakably slowed down. To rely on partial and somewhat dated statistics, the public sector banks' direct lending to agriculture expanded by only Rs 44 crores during July 1970-June 1971, which was less than 10 per cent of the increase in their aggregate advances during the period, compared to an expansion of Rs 115 crores, accounting for 20 per cent of the increase in advances, during July 1969-June 1970. The second development which needs to be noted is the Reserve Bank's decision to relax its policy of pushing the banks to go to areas other than the metropolitan cities and the larger towns. As part of this policy change, permission has already been given to banks to open 149 new branches in Bombay alone. This compares with a total of 361 new branches opened in *all* metropolitan cities and port towns in the two and a half years between the nationalisation of the 14 large banks and the end of 1971. In other words, not only are banks going to open fewer new branches in the next three years, but a larger number of them are going to be in the bigger cities and towns.

One interpretation of these interrelated developments is that the structure, the business attitudes and procedures as well as the orientation of the managements of the larger banks are such that they are incapable of any significant activities (except deposit collection, to an extent) away from the urban areas and away from their main bases of operation. In the period immediately after nationalisation, they did (under heavy political pressure) make a show of going into rural areas and parts of the country far away from their traditional headquarters to open branches and to finance agriculture and allied activities. But now that the political pressure on them has eased, the logic of their organisational structures has reasserted itself and they are returning to their conventional patterns of working. The so-called 'lead bank' scheme was an attempt to get the banks involved in the economic development of the less developed states and regions while leaving the organisation and structure of the banks unchanged. It is hardly surprising, therefore, that the scheme has made little headway.

Surely, it is time the Reserve Bank recognised this and gave some thought to matching the organisational structure of the banks to the new tasks assigned to them. To oversimplify: The task of promoting development in this or that district of Orissa or Bihar or Madhya Pradesh or Assam is unlikely to be effectively undertaken, even with the best will in the world, by banks whose operations are centred on Bombay or Calcutta and to whose overall business performance the above effort will make not the slightest difference. The Banking Commission, whose report is now with the government, was expected to go into the question of the structure of the banking system. But whether or not it has anything worthwhile to say on the subject, the Ministry of Finance and the Reserve Bank cannot continue to evade the problem any longer. In fact, it should occupy a far higher priority than the preparation of so-called perspective plans concentrating on the *number* of branches to be opened.

Exports

Enough of Statistics

THE Ministry of Foreign Trade expects exports in the current financial year to be around Rs 1,620 crores on the assumption that exports during January-March 1972 would be Rs 430 crores. The Ministry has at last confessed that due to the change introduced in the method of recording exports, there had been "double accounting" last year. The Ministry could yet come out with its estimate of the extent of statistical inflation in the export data. But, as if not content with the confusion it had created by claiming an 8.6 per cent increase in exports in 1970-71, it is now making extravagant claims of a different kind by suggesting that there has been a 14 per cent growth in exports in the two years 1970-72 over 1969-70. According to the Ministry, this would give an average growth rate of 7 per cent per annum in these two years. The attempt thus is to show somehow that export growth has not fallen below the Fourth Plan target.

The Ministry does not want to compare this year's export figures with those of 1970-71 on the ground that they are not comparable. It would rather compare them with those of 1969-70 to arrive at the 7 per cent per annum growth. But, surely, the comparison is invalid. First, the 1969-70 export data were compiled on the basis of finally passed shipping bills while those for 1971-72 will be compiled from provisionally passed shipping bills. Thus the data for 1971-72 would not be corrected for short or shut-out shipments which would be incorporated in the data of 1972-73. Second, in its anxiety to 'achieve' the 7 per cent export target, the Ministry compares export figures of 1971-72 with those of 1969-70 rather than those of 1968-69, the base year for the Fourth Plan. But it is more appropriate to compare exports in the first two years of Plan and the anticipated exports in the current year with those of 1968-69. Exports increased by about 4 per cent in 1969-70, while in 1970-71 they remained stagnant at the previous year's level. And during April-December 1971 exports, according to the new system of recording, amounted to Rs 1190 crores. A look at the month-wise distribution of exports during the last few years indicates that about 75 per cent of the year's total exports are effected during the first nine months of the financial year. On this basis exports during the whole of 1971-72 would amount to about Rs 1,590 crores. If anything, this estimate may turn out to be on the high side. But taking exports at Rs 1,590 crores in 1971-72, total exports in the first three years of the Fourth Plan would fall short of the target for these years by more than Rs 150 crores.

On the whole, the Foreign Trade Ministry would do well to stop fiddling with statistics and devote its attention to the economic content of its export policies and programmes.

Fertilisers

Necessary Change of Focus

AGAINST the background of the overall shortage of fertilisers in the country and the fact that capacity in the first three years of the Fourth Plan has not grown as anticipated, the approved expansion of FCI's Trombay unit — to cost Rs 60 crores and based on imported ammonia — will be welcomed as a step towards achieving Plan targets. However, as the expansion is to be completed in three years from the time of foreign exchange allocations, the scheme will not fructify until the Fifth Plan. But this is not the significant objection to the expansion programme. FCI's Trombay unit is best suited for the expansion. The point of receipt of ammonia import is also the best location for producing the fertiliser. FCI has also built up, over the years, a competent Planning and Development Wing which can be relied upon for the expansion — in the adaptation of technology, in design and engineering, as well as in the procurement and execution work. The Trombay unit's technical troubles are over and will probably have refined the available expertise. It has been making a profit too. The expansion will make Trombay the largest fertiliser unit in the country and, while the source of the ammonia has not yet been revealed, it may well be Iran where negotiations have for some time been under way and exchange with whom seems mutually beneficial. A naphtha shortage was expected to emerge about now and import of ammonia, it had been made known, would be permissible for public sector plants.

With 20,000 tonnes of straight ammonia imports every year, the Trombay project is to produce 2,200 tonnes of complex fertilisers. This follows from the use of ready ammonia, since the

carbon dioxide required in the manufacture of urea is generated in the process of producing ammonia itself. Given the much publicised fact that fertiliser application in the country has too heavily concentrated on nitrogen whereas soils usually need a balanced application of nitrogen, phosphates and potash, a production programme for complex fertilisers may *per se* be taken to be a step in the right direction. This, however, does not necessarily follow. In fact, assessment of the correct mix of fertilisers for particular regions and organising of its availability there, are neglected, though important areas in fertiliser planning. In the early scramble for quite simply 'creating indigenous capacity' in fertilisers, it seemed natural to concentrate on nitrogen which is the first most obvious, easily attainable, nutrient. As the technological shortcomings of continued over-use of nitrogen have become evident and as the overall yield from the hybrid varieties has begun to level off, demand for fertilisers has failed to increase as planned. Shorter than expected order books, and stocks accumulation with fertiliser manufacturers in spite of the overall 'shortage' of fertiliser in the country, bore witness to this.

Predictably, the first to wake up to this reality were the fertiliser producers themselves. In response, they have as a first step attempted to streamline their distribution network. Some, like EID-Parry, Gujarat State Fertiliser, and even FCI, have gone further to make a beginning in soil-testing facilities and to start crop-rotation experiment centres. The purpose is to promote sales by supplying what the farmers need, and so first to assess their particular requirements. In time, with a free market operation, one should rightly expect the discoveries of the field-level, regarding fertiliser mix preferences, to be communicated to the production programmes of fertiliser plants. But, of course, such 'management economics' models do not hold in real life situations. By and large, primary producers have been tempted to pump the market with the product they do in fact produce.

Consequently, although the private and public sector producers have realised that there is much more to the fertiliser business than capacity creation for any one or any arbitrary complex of fertilisers, that more than the other standard basic chemicals fertilisers are far more consumer-oriented products, and that, therefore, by far the more difficult and the crucial task in this sector is to organise the services sequentially (but not logically) subsequent to the manufacturing stage, they have not progressed far enough in actualising such services. Ideally, while basic fertilisers (the individual nutrients — nitrogen, phosphorous, and potash — together with their carriers) should be produced at locations best suited from the technical and raw materials' point of view; there could then be bulk blending plants all over the country where the three basic fertiliser types are mixed in proportions as best suited to the soil and the crops. Such elementary 'mixing' operations to get 'complex' fertilisers may be organised by 'service companies' — related to or independent of the basic fertiliser producing companies as may be more economic. These could also organise other inputs such as pumps, spinklers and pesticides, and assist co-operatives, BDOs or individual farmers in soil analysis. This is primarily an agricultural extension task. Producing 'complex' fertilisers, as compounds with standard proportions of N or P or K, may get all the three nutrients to the farmer but not necessarily in the combination he needs, thus entailing waste of particular nutrients.

It is hardly surprising if there is not enough of a private move in the direction of assessing and meeting the farmers' nutrient needs, since government's own emphasis has been on the arithmetic: the capacity and production targets, the outlays, the feedstocks — as though these had any justification or otherwise without reference to the objectives of fertiliser application, *viz*, the maximisation of yields in individual farms and in all India. Yet the Mid-Term Appraisal of the Fourth Plan treats 'fertilisers' only in terms of capacity aggregates and shortfalls, technical bottlenecks, and Plan outlays below the mark.

BUSINESS

More Scope for Price Cutting

JUST when the larger pharmaceutical companies have, after insistent prophecies of disaster for themselves and everyone else, learnt to live not unhappily with the Drug Prices Control Order, they may well find themselves in the thick of another round of controversy over the consumer prices of medicines. The Bureau of Costs and Prices, it is known, has practically completed its inquiry into the prices of selected basic drugs and may submit its report, perhaps in two parts, over the next few weeks. The Bureau's inquiry began innocently enough, mainly as a supplement to the more wide-ranging inquiry earlier completed by the Tariff Commission. The Tariff Commission had fixed the prices of 17 major basic drugs accounting for some 60 per cent of the total output of basic drugs. The Bureau was to determine the prices of 24 other basic drugs accounting for another 25 to 30 per cent of output.

If the Bureau's investigation had been confined to these drugs, the industry would have had no cause for serious complaint. But as it went along, the Bureau extended the scope of its inquiry to include, first, the conversion norms allowed for conversion of basic drugs into formulations and, second, the mark-ups fixed by the government, separately for essential and non-essential drugs, under the Prices Control Order.

Among the various components making up the final price of a drug, the one which had escaped serious scrutiny during the price revisions following the Tariff Commission inquiry was the 'conversion norm'. The government had generally accepted the norms recommended by the Development Council for the Pharmaceutical Industry which, like all Councils, is a body representing mainly the interests of the industry. The Bureau of Costs and Prices has now apparently come to the conclusion that these norms are rather liberal and can be pruned. A cut in the permissible formulation charges may not affect the prices of individual drugs materially but since it would affect formulation activity of the phramaceutical companies across the board, it could have a significant impact on their earnings.

The Bureau is said to have come to a similar conclusion about the mark-up of 75 per cent allowed on essential drugs and 150 per cent on other drugs. In its report it may well opine in favour of reducing these to 50 per cent and 75-100 per cent, respectively. This would, of course, have the effect of significantly lowering the final consumer prices of medicines.

The recommendations of the Bureau of Costs and Prices are no more binding on the government than those of the Tariff Commission. The pharmaceutical industry is, therefore, hopeful that the government may take up for implementation only that part of the Bureau's report dealing with the prices of the

24 basic drugs and shelve its recommendations on conversion norms and mark-ups. This may be justified on the ground that the experience with the working of the Drugs Prices Control Order is too brief to warrant another general revision of prices.

While the government may well take cover behind some such specious plea — to the gratification of the industry — the report of the Bureau of Costs and Prices should still serve a useful purpose if it is made public. It should dispel the impression, fostered jointly by the government and the industry, that the scope for bringing down consumer prices of drugs has been completely, or even substantially, exhausted by the Drug Prices Control Order.

Edible Oils

Who Benefits from Soyabean Imports ?

A Correspondent writes :

SINCE 1965 soyabean oil is being imported to mitigate the shortage of edible oils. Imports of this oil have been largely under United States Public Law 480 payment for which was initially largely in rupees; but gradually these imports have become payable more and more in US dollars, but over a long period. Now they are required to be paid for fully in dollars. What is more, the availability of soyabean oil under PL 480 has always been at the political discretion and commercial requirements of the USA, totally in disregard of the needs of India. For example, after the crop failures of 1965-66 India badly needed oil imports. However, US aid, stopped during the Indo-Pak conflict in September 1965, was not resumed till April 1966. The first shipment of soyabean oil could be effected only in July and reached Indian shores in September, at the very end of the crop season. There have also been delays in the issue of Purchase Authorisations under annual aid agreements causing considerable hardship to oil users in India. Now that US aid has been stopped again and the government is considering measures to do without such aid it may be useful to consider what economic and social benefits have been derived from the imports of soyabean oil in the past.

It must be recognised that PL 480 imports have provided resources to the Union Budget for development. Soyabean oil imports have augmented Budgetary resources to the extent of Rs 15 to Rs 25 crores a year, depending upon the quantities and landed costs of the oil.

The availability of soyabean oil by increasing total edible oil supply should have exercised a moderating influence on oil price levels. However, from the accompanying Table it will be observed that the imports have had little influence in arresting price rises. The reasons are untimely imports — the oil being not available when needed most — and insufficient imports in relation to the gap between indigenous oil supply and demand. Untimely imports were partly the result of reluctance on the part of the US government to release the oil and partly of administrative delays in the Indian government making requests to the US government for such aid. Insufficiency of imports were due to India's needs for using the larger part of the available PL 480 funds for wheat imports and reluctance on the part of the US government to release larger quantities of soyabean oil for India.

Further, soyabean oil has not been available for arresting undue price increases except in an indirect and limited manner. The oil has been largely reserved for use in vanaspati manufacture and its use was regulated strictly for stabilising vanaspati prices. While normally in periods of oil prices use of soyabean oil in vanaspati would increase, the government had the discretion of raising vanaspati prices and withholding soyabean oil use. Sometimes the permission to use soyabean oil did not automatically make the oil available to the vanaspati factories. Transport bottlenecks delayed availability of soyabean oil and in the meantime the pressure on indigenous oil from the vanaspati industry would remain unabated.

Soyabean oil was hardly available to the user of liquid edible oil. Attempts by states like Gujarat and Maharashtra to make refined soyabean oil available at fair prices did not meet with success as generally people are accustomed to using raw oils with their specific tastes.

The benefit of cheap soyabean oil to the consumer of vanaspati has also been in doubt. Despite price control whenever oil prices have been rising vanaspati prices have gone up, at least so far as the consumer is concerned. If the control narrowed the difference between oil and vanaspati prices using soyabean oil, vanaspati would go underground and the purchaser would have to pay blackmarket prices. Between 1966 and 1970 there have been many occasions of such disappearance of vanaspati from the shop shelves.

Vanaspati is not an ideal vehicle for subsidising the fat consumption of the vulnerable section of the community. It is not the acceptable dietary fat in all parts of the country. In the oil consuming areas of south and east India it is basically an industrial fat for hotels, restaurants and confectioners. Even elsewhere its consumption for marriage feasts and other non-essential purposes is quite large. Therefore, soyabean oil release at subsidised rates has been going largely to subsidise the conspicuous consumption of the affluent. What is more, as the consumption of vanaspati is very unevenly spread with the maximum being consumed in Punjab, Haryana and UP and negligible consumption in the south, subsidising vanaspati is a highly discriminatory policy. Recently government has started using soyabean oil to subsidise vanaspati prices more in some zones than in others. This aggravates the discriminatory character of the use of soyabean oil.

At a time when the government is short of financial resources one fails to understand why several crores of rupees are wasted on subsidising the fats consumed by the relatively prosperous people of the north-west region or used in biscuit-making, marriage feasts, and preparation of sweets by halwais. If government is keen to subsidise the fat consumption of the vulnerable sections all the cheaper imported oil should be made available in the form of refined oil or vanaspati for distribution through fair price shops. If this is not possible for any reason and imports are made in future to check undue rise in edible oil prices it should be used as buffer stocks to be released in the form of open market operations whenever indigenous oil prices tend to rise unduly. The sales should be at a price slightly below the market rate for indigenous oils. This will have a far greater impact on the price level than the futile attempt to subsidise vanaspati prices for the wrong sections of the community.

TABLE: GROUNDNUT OIL PRICES IN BOMBAY

	Maximum (Rs)	Minimum (Rs)	Soyabean Oil Imports (Tonnes)
1966	5,525	3,375	56,000
1967	4,750	2,950	85,252
1968	4,350	2,320	85,388
1969	5,500	3,160	97,707
1970	5,650	3,850	91,079

All External Factors?

Hansavivek

UNICHEM LABORATORIES experienced a marked contraction of margins during the year ended September 1971. While home sales advanced by 33 per cent and exports by 38 per cent over the previous year's figures, gross profit could go up by only 10 per cent — as a result of the cumulative effect of increase in wage bill, the higher prices of raw materials owing to canalisation of imports through IDPL and general scarcity, and the increased interest charges on account of larger borrowings made necessary by a surge in turnover. A V Mody, chairman, points out that additional burden on account of the award of the industrial tribunal for factory employees in Bombay — which operates retrospectively from October 1969 — will be more than a million rupees every year in future. This award has introduced a slab system of dearness allowance whereby the allowance varies not only according to rise or fall in cost of living but also with rise in basic wages. According to him, this results in a "very inegalitarian distribution" since 70 per cent of the benefit goes to 28 per cent of Unichem's employees and 30 per cent is shared among 72 per cent. The company has appealed before the Supreme Court against the award and is awaiting a decision thereon. The impact of the price control under the Drugs (Prices Control) Order, which came into effect from the beginning of 1971, is likely to be stronger in future. Meanwhile, government has entrusted the work of inquiring into the costs of the pharmaceutical industry to the Bureau of Industrial Costs and Prices. The Bureau is reopening and studying questions such as the basis of conversion cost, mark-up, and several other cost elements, which were settled with the implementation of Drugs (Prices Control) Order.

The company is maintaining dividend at 10 per cent and also proposes to issue bonus shares on a one-for-six basis. The directors have declared their intention to recommend the same rate of dividend on the capital to be enlarged by the proposed bonus issue. The company has appointed distributors in several countries with a view to developing exports further.

GODAVARI SUGAR expects a decline of about 10 per cent in its sugar production during the current season, further to the 5 per cent decline last year, on account of decrease in cane acreage and diversion of cane to gur manufacture. K J Somaiya, chairman, complains that cane yields of the erstwhile factory-farms, now with the Maharashtra State Farming Corporation, have fallen. Citing an example, he says that, against an average yield of 64 tonnes reached at Godavari farms prior to their being handed over, the current average yield is around 55 tonnes. Losses incurred by the Corporation are sought to be made up by claiming a price higher than the statutory cane price, and government has set up a Sugarcane Price Fixation Board to determine the 'fair price' from year to year. According to Somaiya, a recent award made by the Board on 'fair price' contains some pertinent observations meriting public attention. Somaiya then comments on the country's sugar production which after reaching a peak of 42.60 lakh tonnes in 1969-70 fell to 37.65 lakh tonnes in 1970-71 and is expected to fall further to 32 lakh tonnes in the current season. While 215 factories operated in 1969-70, 226 are operating in the current season. Whereas the 1969-70 season ended with a record carry-forward of 20.88 lakh tonnes, the current season may end with practically no carry-forward stocks or with only about 3 lakh tonnes. He holds faulty planning responsible for such wide swings in production. He suggests among other things a suitable revision of the minimum sugarcane price that was fixed 5 years ago, greater incentives to new units, and encouragement to sugar factories to become centres of dissemination of technology with model farms to provide extension services and operate as seed nurseries. Godavari's new unit, set up in Mysore with a capacity of 2,500 tonnes per day, was to commence production in the middle of February. During the 35th year ended May last, the company earned a lower profit, despite higher sales realisation. Equity dividend is maintained at 3 per cent. Also, bonus shares are being issued on a one-for-four basis by capitalising Rs 80 lakhs from the general reserve. The company has also issued 200 unsecured debentures, of Rs 10,000 each, fully paid up.

UPPER DOAB SUGAR crushed 47.24 lakh quintals of sugarcane (including about 11 lakh quintals of old cane of deteriorated quality that had to be accepted "under government pressure") during 161 days with a recovery of 8.61 per cent in the year to September 1971 compared to 69.58 lakh quintals crushed during 246 days in the preceding year with a recovery of 8.62 per cent. In the absence of any compensation for the supply of old cane and for increase in cost of sugar, the company moved two writs before the Allahabad High Court and obtained stay in both cases. It was able to deduct over Rs 11 lakhs from the price of old cane and realise about Rs 6 lakhs as higher sugar price. These sums are in deposit with the District Magistrate at Muzaffarnagar pending final decision of the writs. Lower production of sugar notwithstanding, net sales showed a marked advance, though profit declined following a notable fall in margins. With the closure from September 1970 of the S S Light Railway, which used to carry about 25 per cent of the cane supplies, stores, and finished products, the company had to resort to road transport at a higher cost. Production at the Shamli distillery was 35.84 lakh litres of spirit, against 46.56 lakh litres in 1969-70. The realisation was affected by the reduction in controlled price by about 4 per cent. Moreover, inefficient working of the boiler and economiser resulted in increased consumption of fuel. A new boiler and economiser have been installed. The distillery at Pilkhani produced 44.81 lakh litres against 47.63 lakh litres. Sales of Indian-made foreign liquors are picking up.

ELECTRICAL MANUFACTURING COMPANY's production facilities at Naini, after crossing the gestation period, have become profitable and are expected to make greater contribution to profits this year. In spite of shortage of aluminium, ECM achieved a relatively good production during the 18th year ended May 1971. Improved supply of other raw materials and absence of disruption of production also helped the company to raise output. Demand for major products increased on account of the Plan demand. Increase in excise duty continued to restrict profitability. Most of the State Electricity Boards refused to accept increase in prices stipulated prior to the imposition of additional excise duty. The

extrusion works had to forgo the more profitable extruded products on account of shortage of E C grade rod and concentrated instead on manufacture of rods required by cable works. Castings produced by the company were well received by customers for quality. Manufacturing facilities of Steelal Canal Works have been handed over since then to a separate subsidiary 'EMC Steelal'. The company has adopted the 'straight-line' method of charging depreciation, instead of the 'reducing balance' method. This has resulted in a reduction in depreciation, of about Rs 3 lakhs for 1970-71, and an excess of depreciation charged since inception, amounting to Rs 20 lakhs. The latter amount has been transferred to the general reserve. The company's order book continues to be full, and the directors expect demand for products to grow. But shortage of working capital — partly on account of current sundry debtors comprising mainly State Electricity Boards — has disturbed the financial planning. The company is considering the expansion scheme at the Naini unit, both in existing and other fields. The performed armour rod, produced at the Calcutta works under licence from Performed Line Products of the US, has revolutionised the transmission line fittings. More new products are being developed.

NAGPAL AMBADI PETRO-CHEM REFINING's project has exceeded the original estimates of capital cost by about Rs one crore. Of this, Rs 40 lakhs is accounted for by the acid sludge decomposition and gas cleaning plant. It is stated that the original project estimate was based on a "very rough estimate" made by the engineering contractor on a mere description of the plant without any detailed designs and specifications. Detailed engineering designs could only be developed after the visit by the project manager of engineering contractors, Simon Carves India, in mid-1970. Increase of Rs 10 lakhs resulted from increase in steel procurement costs. Besides, additional cost of Rs 50 lakhs has been entailed by the "very poor soil conditions" necessitating several modifications in the foundation of equipment and buildings and steel structural work. In order to finance the additional cost, the company has approached the financial institutions for Rs 80 lakhs against debentures to be issued to them. The balance Rs 20 lakhs is intended to be met from internal resources. Regular commercial production has started at the main plant, and also at the oleum plant after a delay of about six months due to acute scarcity of steel. Certain sophisticated equipment is to be imported from the US for the acid sludge decomposition and gas cleaning plant. This is available on a long delivery period. Besides, further difficulties have been created by the cessation of US aid. The management expects to overcome these problems and to complete the plant by the third quarter of 1972. Transformer oil, manufactured by the company, conforming to the Indian Standards specifications and the International quality and packing standards, was put on the market in November 1971 and has been well received. A few speciality oils have also been produced; these are to be shortly released for sale. Feedstocks for manufacture of transformer oil and light white oils are being obtained from Madras Refineries. Indigenous feedstocks for heavy white oil are under evaluation. Micro-crystalline, required for the manufacture of petrolatums, is not produced in India. Manufacture of petrolatums will start on receipt of supplies of this item.

The Week's Companies (Rs in Lakhs)

	Unichem		Godavari Sugar		Upper Doab		EMC	
	Latest Year 30-9-71	Last Year 30-9-70	Latest Year 31-5-71	Last Year 31-5-70	Latest Year 30-9-71	Last Year 30-9-70	Latest Year 31-5-71	Last Year 31-5-70
Paid-up capital	54	54	119	119	100	100	85	85
Reserves	68	57	164	146	41	49	99	69
Borrowings	134	106	399	382	219	366	147	117
of which Term borrowings	5	5	62	60	—	—	—	—
Gross fixed assets	133	122	404	375	368	351	178	165
Net fixed assets	79	74	246	132	108	112	138	104
Investments	1	1	74	84	1	2	2	2
Current liabilities	126	85	536	536	165	107	53	47
Current assets	301	226	898	961	416	508	244	212
Stocks	128	103	584	633	293	426	152	135
Book debts	165	113	293	293	97	78	84	72
Net sales	514	386	894	756	772	642	453	296
Other income	5	3	20	22	18	35	24	30
Raw material costs	184	128	410	448	402	584	362	223
Wages	82	55	63	56	69	63	37	30
Interest	10	9	36	33	36	28	14	10
Gross profit(+)/loss(—)	45	40	55	71	46	74	17	2
Depreciation provision	10	9	12	12	19	21	5	7
Tax provision	20	16	30	43	17	27	—	—
Net profit(+)/loss(—)	15	15	14	16	10	26	12	—5
Development rebate provision	1	1	1	1	1	4	2	—
Transfer to reserves	9	9	10	11	8	5	—	—
Dividend								
Amount	5	5	E 3 P 1	E 3 P 1	17	17	5	—
Rate (per cent)	10	10	E 3 P 7.85	E 3 P 7.85	17.50	17.50	6	—
Cover (times)	2.80	2.80	4.33	4.66	0.53	1.30	1.00	—
Ratios (per cent)								
Gross profit/sales	8.76	10.34	6.14	9.39	5.95	11.53	3.75	0.67
Net profit/capital employed	5.86	6.91	2.05	2.47	2.78	5.05	3.93	—
Inventories/sales	24.90	26.42	65.32	83.72	38.00	66.20	33.55	45.61
Wages/sales	15.95	14.25	7.04	7.41	8.94	9.81	8.17	10.13

FROM OUR CORRESPONDENTS

A Week That Did Not Quite Change the World

G P Deshpande

IT reflected the remarkable sense of history that the Chinese have that they should have chosen to take the chieftain of the West, President Nixon, to Shanghai. There is no other city in China which has seen more of the dominance of the West and the humiliation of the Chinese than Shanghai. This was the city where once the imperial powers reigned supreme. They had their own laws and their own concessions. They would not let Chinese and dogs enter their parks. It was fitting that the American President should go to that city and exchange jokes with Chinese workers.

There is a sense of triumph going with Chou En-lai's farewell to the American President. This has easily been his finest hour and so has it been of China. No amount of sophistry or power logic can hide the fact that this is the beginning of the decline of the West, especially of the United States. It is not the emergence of a new triangle or a quadrilateral of power that is significant about the Nixon trip but rather the end of an age that it signifies. The coloured world, if one might say so, has arrived.

We are living in times when such talk about the "coloured world" sounds out of fashion. This was fine during the fifties, but not any longer. We have chosen to forget that there was a time in our country too when we were helping this 'third world' find its own voice. However, that was not to last. One consequence of this development has been that it is no longer possible in India to experience the sense of triumph that an average Chinese must enjoy today as a consequence of the Nixon visit sought by the American himself.

American Defeat

The average Chinese has good reasons to feel triumphant today. The joint communique states in unmistakable terms that "the US Government acknowledged that all Chinese on either side of the Taiwan Straits maintained there is but one China and that Taiwan is a part of China. The US Government does not challenge this position". The communique further states that the US Government "affirms the ultimate objective of the withdrawal of all US forces and military installations from Taiwan". This does not mean that Taiwan becomes one with the mainland tomorrow. But it certainly means that the power which clung to the absurd position of saving the Chiang regime has had second thoughts. Territorial integration is one of the first objectives of a revolution. In the case of China this was still incomplete. One power which was responsible for this has now recognised the inevitable. It is like the Americans recognising before 1961, that Goa was a part of India. Of course, they did nothing of the kind. But had they done so, one need only imagine the consequences. In any case, that would give some measure of the feeling of triumph in China today.

Of course, the Americans have not promised withdrawal of troops as the Chinese New Year gift to Premier Chou En-lai. The suave Chinese Premier must have wondered why "the imperialists" have suddenly been forced to "lay down their butcher knives ... and become Buddhas", as Mao put it once. It is obvious that if the Americans have signalled retreat it is so because they had to. As we have said in these columns before, this summit, unlike its counterpart at Camp David more than a decade ago, is marked by the American defeat. The United States has reached the limits of its power — a fact which President Nixon's host could not have overlooked. The unavoidability of the American retreat is the setting of these talks. The joint communique has to be viewed against that background. The American commitment to the withdrawal from Taiwan has only underlined the inevitable.

It is this crucial difference in the situation which accounts for the overall divergence of Sino-American views in the joint communique. In 1957, Dulles could spurn the Chinese readiness to talk with the Americans. The US was still consolidating in Asia. The Vietnamese bid for unification and freedom had just been frustrated. The SEATO had been put together and was in a fairly robust state. In Europe, the lines were being drawn on the ground. The Americans did not have to talk to the Chinese. Now it is a different story. The US is "waist deep in big muddy" of Vietnam. The colonel's trick which worked so fine in Greece has failed to deliver the goods in Cambodia. The Americans are never sure who rules Laos and when.

One can go on in this vein. The point is that the Chinese must be realistic enough to see that it is absurd to capitulate before a retreating power. What has forced President Nixon to take a trip to Peking is the ocean of peoples' struggles that he finds himself drowning in. In other words, the Vietnamese have in a sense fought the Chinese battle or everybody's battle for that matter. If the mandarins of New Delhi can once in a way make a few anti-American noises today it is largely due to the Indo-Chinese peoples and their fight (and, of course, the Treaty)! The Chinese have clearly shown awareness of this in beginning their section of the communique with the statement that "countries want independence, nations want liberation and the people want revolution. All nations, big or small, should be equal ...".

Normally this would have been no more than a platitude. It would have been possible to give it a cynical smile and to say that the Chinese are slowly learning the ways of speech of the big powers. But, may be, it is not so. We are possibly entering an era when it is going to be increasingly difficult to impose solutions or conformism on smaller powers. The Americans cannot do so on the tiny Indo-Chinese states. The Soviets would find it increasingly difficult to do so in the not-so-big states of Eastern Europe. The international system is changing in a manner in which the weaker states, given the will, can show considerable resilience.

Not a Super Power

If the Chinese have shown awareness of this, there is nothing surprising about it. They themselves have shown that resilience. Nehru's India did too for a time. In any case, this is the reason why the Americans talk of "peace" while the Chinese talk of "struggle". The Americans have "just and secure peace" in mind. The Chinese have "the struggle for justice and security" in mind. This reflects a cleavage which it would be unrealistic to ignore. This contrast brings out, more than anything else, that China is not *yet* a super power. Whether it would ever become one, we do not know. It is sometimes said that if a power disclaims any desire to be a super power it is a definite sign that it has become one. One will have to dispute the accuracy of this statement for the simple reason that neither of the two super powers we know has ever gone in for such a disclaimer. In fact American rhetoric on 'peace' in this joint communique still reflects a conviction that the "just and secure peace" is best defined at 1100, Pennsylvania Avenue, Washington DC.

It is necessary to understand this difference between the United States and China. The Americans did *offer* a place to China in the international system under the pressure of a defeat. But it cannot be construed to mean that they have, therefore, accepted China as one more super power. They cannot; for they are not the sole managers of the system. President Nixon has yet to consult the other managing director of the system who, he knows, is unlikely to endorse the new membership.

It is this simple fact of life, if not its idealism, which makes China's continued support and assistance to "the struggling people" in Indo-China and elsewhere a foregone conclusion. China cannot do to the Vietnamese communists what Stalin did to the Greek communists; for Mao is not Stalin and, more importantly, South-East Asia is not East Europe.

The Yen with a Bullet

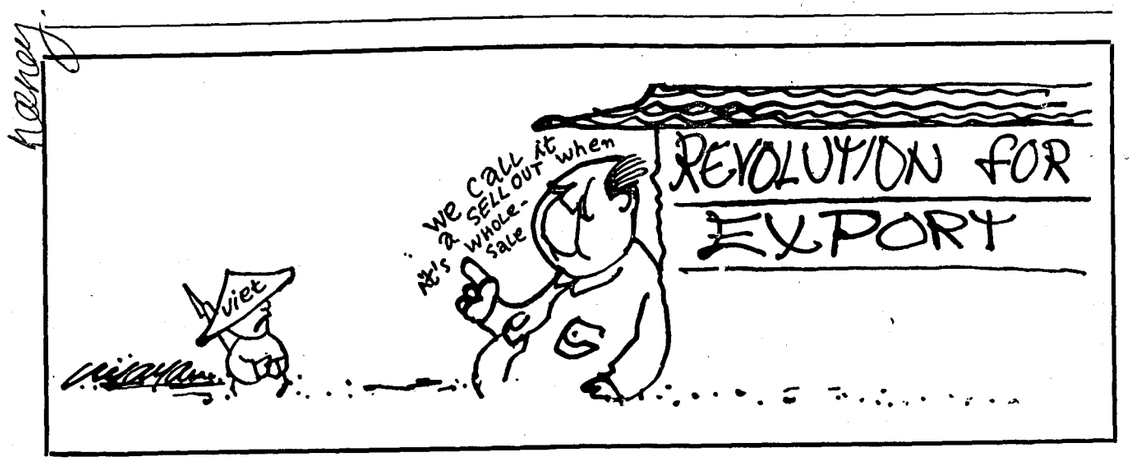
Indeed, even if South-East Asia would have been East Europe, its Russia is unlikely to be China. It is going to be Japan. Japan's economic and military power has evidently cost the Chinese leaders many nights' sleep. If the Chinese needed any evidence to refute other people's illusions that the US was out for an era of co-operation with China, they must have got it in the US attitude to Japan. While the Chinese side "firmly" opposed "the revival and outward expansion of Japanese militarism", the Americans pledged "to continue to develop the existing close bonds" with Japan. This is not to say that there are not and will not be contradictions between Japan and US. This is only to suggest that if the Chinese are rightly or wrongly apprehensive of Japan's role, the US knowing as it does that Japan is possibly the third power of the world, would like to keep the Japan-US relationship as smooth as possible. The US may, in fact, look forward to an increasing economic and political role of Japan in Southern Asia. ASEAN and ASPAC were beginnings in that direction. Japan is reasonably well entrenched in South Korea and Indonesia. Evidently President Nixon had nothing to reassure the Chinese on the subject. More and more southern Asian people will be influenced by the Japanese Yen rather than by Mao's thoughts. The Yen and a bullet make an excellent and durable combination. At any rate, so the Chinese fear.

Then there is the Soviet Union which does not find mention in the joint communique. The silence about the Soviet Union is not altogether mysterious. The tensions that exist between the US and the Soviet Union are such as would make President Nixon seek a trip to Peking so as to keep the Soviets guessing. But he cannot keep them guessing for long. He is in fact going there in May. The Soviets, in turn, might feel a little hurt that the Chinese should have been talking to the other manager of the international system not through the proper channels. But it is doubtful whether the Soviet pretence of anger at the American behaviour would really last. The American interests are supreme in Europe and the Soviets can hurt them there. In other words the US cannot admit anybody to the super power club without Soviet concurrence, except by paying for it dearly in Europe or on such issues as disarmament.

Changing, But Slowly

In short, there is more at stake in Soviet-American relations than there is in Sino-American relations. Americans showed an awareness of this in their performance in the UN on the Indo-Pakistani issue. While the Chinese were hitting at the Russians, the Americans were content to blame India and underplay, if not to ignore, the Soviet role. In the joint communique, it is the Chinese who supported the Kashmiri people's "right for self-determination" whatever that might mean. Americans, significantly, did not endorse the Chinese line. Maybe, it will soon be 'peaceful co-existence' for Moscow and Washington in New Delhi.

Thus, although President Nixon claimed that the week that he was in Peking had changed the world, the world might not have changed much after all. True, there will be trade, travel and cultural contacts between China and the US now. But it was the US which had shunned it all along. The week has shown to President Nixon a reality that he had consistently refused to see. However that does not mean that the world has changed, in any case, not in any significant way. The international system surely will change but still it is a matter of the future. The Chinese have only won a small battle on the way. They will be the losers if they were to take President Nixon's optimism about the change too seriously. There is no indication that they suffer from the illusion. The world does change but at a pace that is pitifully slow.



NEW DELHI

Political Underpinning for Economic Policies

THE setting up of the Economic Policy Committee of the Cabinet has been variously interpreted. It could be yet another committee with no well defined functions and without much significance. This could be so particularly because another Cabinet committee, the Economic Co-ordination Committee, continues in existence side by side and is supposed to cover nearly the same field as has been entrusted to the new committee. On the other hand, the constitution of the new committee might be taken to suggest greater awareness on the part of the Prime Minister of the need to come to grips with economic policy problems. It could be the starting point of the Prime Minister assuming more direct charge of this field so that economic policies receive the necessary political support which they have not in the last few years.

The new committee, it is stated, is conceived of on the same pattern as the Political Affairs Committee of the Cabinet. In fact, in recent months the forum of the Political Affairs Committee has been used to deal with vital economic policy matters as well. But this was clearly unsatisfactory and the Prime Minister had several months ago begun to think of setting up a parallel committee for economic affairs. The experience of the functioning of the Political Affairs Committee as a compact body capable of examining problems in depth and taking final decisions without going through cumbersome procedures no doubt strengthened the case for a similar body to deal with economic issues. The Economic Affairs Committee has the Prime Minister, the Planning Minister, the Steel and Mines Minister and the Industrial Development Minister.

Just Another Committee?

The details of economic issues will remain the responsibility of other bodies, like the concerned Ministries, the Economic Co-ordination Committee and the Planning Commission, among others. The Economic Co-ordination Committee will continue to deal with problems concerning issue of industrial licences, to the larger houses and implementation of particular projects. The idea is that the Economic Affairs Committee should concern itself with basic policy matters and provide clear political direction to the Ministries and other government bodies so that they might function in their areas of responsibility without the inhibitions and uncertainties which have been a marked feature of the working of the government on the economic front for some time. The necessary sense of political direction on economic matters has been lacking because the Prime Minister has been too preoccupied otherwise. Now, however, it is acknowledged that the problems of the economy ought to receive the utmost priority and the setting of the new Cabinet committee is perhaps an indication that this will indeed happen. The committee has already started functioning and it is expected to meet frequently. It will not only sort out and take decisions on policy issues as they arise but will initiate studies with a view to clarifying policy alternatives in the management of the economy.

There are a whole host of problems on which clear political direction is needed for any effective action. There has been far too much *ad hoc*-ism in the past few years in dealing with the problems of the economy. The executive agencies have gone their own ways propelled either by short run considerations or by personal whims and fancies. The Planning Commission at one time used to provide the policy frame for economic decision-making. But that was when it enjoyed the necessary prestige and authority to secure compliance. This is no longer the case. It is well known that the Prime Minister does not rely, and has never relied, on the Planning Commission to perform these functions. The resultant vacuum may now be said to have been filled by the Economic Affairs Committee.

High on the agenda of the new committee is the question of the role of foreign aid in the development process, and more specifically, in promoting employment and increasing production from established capacities in the public and private sectors. This matter is of immediate relevance, both for the Budget for the next year, which will be presented immediately after the State Assembly elections, and for the reappraisal and recasting of the Fourth Plan now under way. Of course, the framing of the Budget and drawing up of the annual plan for the coming year are the responsibility of the Finance Ministry and the Planning Commission, respectively, but these tasks cannot be carried out as formal exercises any longer. How far the Economic Affairs Committee is able to give policy directions to these important tasks will show whether it is going to be effective or not.

Immediate Issues

According to the accounting exercises of the Finance Ministry, for instance, there will be a large gap of the order of Rs 450 crores in estimated receipts and expenditure for the next year — at present levels of taxation, including the additional levies imposed in the course of the present year after the presentation of the Budget. This gap arises if the Plan outlay is to be stepped up to about Rs 1,600 crores in the coming year to sustain the development process and if no US aid is available. Also, the Budget will have to carry a burden of nearly Rs 200 crores on account of food subsidy and build-up of foodgrain stocks. Will the Finance Minister have the political backing necessary for another tax effort of the order of Rs 200 to Rs 250 crores in his Budget for the next year? – Also, will he be able to substantially reduce the burden on account of foodgrains procurement and distribution by reducing procurement prices and increasing issue prices? These are questions to which the Economic Affairs Committee must provide clear answers. The Budget will show whether this has been done or not.

It has been frequently repeated in recent weeks that overdraft facilities to the states would be stopped from the beginning of the next financial year. Also, the states are expected to raise additional resources while central assistance is to be merely maintained at the level of the current year. True, in the present political situation the central government can deal with the states fairly firmly. But such rough and ready methods as are being proposed are hardly an answer to the financial problem that the states face and, if put into operation, may result only in the state plans becoming inoperative, particularly in the more backward states. The Planning Commission and the National Development Council no longer look capable of initiating the policies required to tackle this difficult problem. The task will, therefore, have to be faced by the political leadership at the centre.

Or take, again, the industrial sector. Much has lately been said about the fall in the industrial growth rate. In this context, the role of the larger houses as well as the objective of curbing monopoly and concentration of economic power have also come in for a lot of discussion. The recent decision to allow larger production from established capacities, for instance, has raised its own problems. The Company Affairs Ministry has objected to applications from the larger houses being cleared without reference to it. Problems have arisen also in regard to the working of the Monopolies Commission and the extent to which the Commission may inquire into inter-connections of companies belonging to large houses. Similarly, there are cases of partial clearance of certain applications while other essential matters have been kept pending so that the purpose of the clearance is lost. A case is built up for providing additional incentives, including extension of the system of development rebate, to promote investment in industry. The Finance Minister is under pressure to do something in this direction in his Budget, though there are also contrary political constraints to be reckoned with. The Economic Affairs Committee alone will be able to provide the guidelines on these issues.

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Colossal Oil Imports

The Petroleum and Chemicals Ministry is reported to have drawn up plans to increase imports of petroleum products which are estimated to cost nearly Rs 90 crores in 1972-73, a significant part of it in free foreign exchange. Additionally, India has to import large quantities of crude oil for the foreign-owned and public sector refineries. At the present enhanced prices of crude in the international market, these imports are expected to cost nearly Rs 140 crores next year, all of it in free foreign exchange. This is a disconcerting prospect, particularly when there is so much talk of self-reliance and ending dependence on economic aid, which call for severe curbs on import requirements.

Crude imports, it may be argued, are unavoidable since this country does not produce enough crude to feed the refinery capacity set up. This argument itself is open to question, but the kind of jump envisaged in the import bill for products can only be the result of extremely poor management of the national oil industry in the last few years. Only a few years ago it had been claimed that we had achieved near self-sufficiency in refining capacity. According to earlier projections, import requirements of oil products in 1972 should have been hardly 0.75 million tonnes out of a total consumption of about 18 million tonnes. Imports of this order would have cost Rs 15 crores and would have come mostly from rupee payment sources. Against this, imports of products in 1972 will actually be nearly 2.5 million tonnes costing about Rs 90 crores.

This situation has come about mainly because of the delays in the expansion of refining capacity. Also to blame are the peculiar notions of the Petroleum and Chemicals Ministry about the operations of the foreign-owned refineries. In the past, tussles for paltry reductions in the prices of crude imported by these refineries have occupied the attention and energies of the Ministry to the detriment of effort to tackle the far more important tasks of exploration and production of crude and establishment of adequate refinery capacity. Now the Ministry is once again engaged in haggling for marginal concessions in crude prices. The instrument used for the purpose remains the same — the regulation of foreign exchange allocation to the foreign-owned refineries for crude import. In the present case, this whole exercise is resulting in import of petroleum products at a cost much higher than the cost of importing crude at the prices quoted by foreign oil companies. This is not to say that the companies are not taking advantage of the present world price situation for crude. But by persisting in tactics which have failed to produce results in the past, the Ministry is only weakening the country's total bargaining position *vis-a-vis* the international oil interests.

Tarapur's Troubles

Dipak B R Chaudhuri

THE total shut-down of both the nuclear power units at Tarapur and the 'discovery' of flaws in the design and installation of various sections of the plant, have underlined the need for a thorough probe into why there was such uncritical acceptance of foreign technology in such a vital and heavy investment sector as atomic energy. Though the Council for Scientific and Industrial Research (CSIR) and similar organisations have been periodically subjected to independent reviews by outsiders, no such evaluation of the Atomic Energy Commission has taken place. In fact, AEC has enjoyed much security and liberty under the cloak of 'secrecy classification' though it is time there was a proper performance audit of the huge outlay and multifarious activities of the organisation.

The Estimates Committee of Parliament has, however, examined the progress of the nuclear power programme. But its report, presented to the Lok Sabha in July 1970, was somehow sidetracked at the time. Also, even this powerful parliamentary committee was unable to get an adequate idea of the real cost of power generation at Tarapur or at the other nuclear power projects.

A look at the history of how decisions have been made on atomic power for the country, suggests why AEC's operations have been kept away from critical review. As early as on September 6, 1957, the late Homi Bhabha, speaking in Dublin on the 'Economics of Atomic Power Development in India and the Indian Atomic Energy Programme', said:

> "As far as India is concerned... the best way of obtaining fissionable material appears to be to produce plutonium as a by-product in atomic power stations working on natural uranium.... It seems likely that breeder stations may begin to operate by about 1965. In order that enough plutonium should be available at that time for fuelling such stations, it is clearly necessary to start on an atomic power programme based on natural uranium reactors very soon."

Then, in 1960, the AEC submitted its first concrete proposals to the Planning Commission for setting up nuclear power stations in India. A number of considerations led the planners to opt immediately for nuclear power in areas far removed from the coal-bearing regions, to draw on the natural resources, technical manpower, and research expertise obtained at Apsara and Zerlina reactors, and to collaborate with Canada in the Cirus reactor. The Cirus was the first large research reactor (40 mw thermal), built with Canadian design and know-how.

The Planning Commission, in its report on the Third Plan, also expressed a view conforming to Bhabha's in his Dublin speech:

> "It has been estimated that the thorium reserves in the country are among the largest in the world and are more extensive than those of uranium. In order to utilise thorium, the nuclear power programme in India has to be carried out in three stages, which is time-consuming. The first stage will utilise natural uranium as fuel, producing power and the fissile element plutonium. The second stage will employ reactors using plutonium as fuel and thorium as fertile material, producing power and converting part of the thorium into U-233. The third stage will use U-233 with thorium in breeder reactors, so that, while electricity is generated, more U-233 is produced than burnt up in the process."

In spite of the scientists' and the planners' commitment to basing the first nuclear power project on a natural uranium reactor, the Indian authorities signed three agreements with the US between 1963 and 1966 for the first nuclear power project based on enriched uranium fuel —which would be imported. Thus Bhabha's original idea of starting with dual-purpose reactors was discarded in favour of dependence on foreign raw material and foreign design expertise. On this the Estimates Committee observed:

> "Government in their enthusiasm to demonstrate that atomic power could be generated at a rate which would be competitive with the conventional sources of power in the country, in the setting up of the Tarapur project took a hasty step in accepting a reactor based on enriched uranium—not in keeping with the country's long-term objectives. The enriched uranium is required to be imported for the lifetime of the station, and has thus made the country dependent on foreign resources. The Committee further feel that, in view of the contract being on a turnkey basis, it is doubtful if the Tarapur project has taken the country far enough in attaining the goal of self-reliance in the production of nuclear power."

The background to the final award of the turnkey contract to IGE of the US is also interesting. Global tenders for the Tarapur project were invited in October 1960, on a fixed-price basis, without imposing any limitation on the choice of the reactor system. The tenders were based on inquiry specifications drawn up by the engineers of the Tarapur project. It was expected that this would provide a general perspective of the world-wide developments in the nuclear energy field. By August 1961, seven proposals from four countries were received. These were: (i) General Electric Company and (ii) English Electric, of the Babcock Wilcox and Taylor Woodrow group, of the UK; (iii) Groupement de Constructeurs Francaise de Centrales Nuclearres, a consortium of French firms; (iv) General Electric/International General Electric (known collectively as IGE), (v) Westinghouse Electric International, and (vi) Atomics International in association with Kuljian Corporation of the US; and (vii) Canadian General Electric and Canadian Bechtel, of Canada. The proposals among them spanned four reactor systems, in operation or under development at the time. Proposals 1, 2 and 3 were based on natural uranium graphite moderated gas cooled reactors. Proposals 4 and 5 were based on slightly enriched uranium, light water moderated and cooled reactors. Proposal 6 was based on the natural uranium heavy water moderated, organic cooled concept. Proposal 7 was based on the natural uranium heavy water moderated, organic cooled concept.

IGE Tender Accepted

Proposals 6 and 7, from an American firm and a Canadian firm, respectively, offering a natural uranium reactor, were not complete either in design or cost calculations, because no such station was actually in operation anywhere in the world. The British and French offers were found to be too expensive. At that time. Britain was far more advanced in nuclear power generation than was the US. Of the two American tenders, the one submitted by IGE (proposal 4) based on a boiling water reactor using enriched uranium was found to be the most suitable. It was thus picked, subject to satisfactory arrangements with the US government on financing, safeguards, supply of fuel, plutonium buyback, and allied matters. The fuel sales agreement with the US AEC was signed on August 8, 1963. It is still not clear, however, what in the first place led to the reversal of the national objective laid down earlier of building the first generation of nuclear power reactors based on natural uranium.

Thus the Estimates Committee was "not convinced that the terms offered by the International General Electric Company were too attractive to be rejected—especially when factors like fuel cost, the production of plutonium, achievement of self-reliance, saving in foreign exchange, and the country's long-term objective, are taken into consideration." The Committee underlined that "enriched uranium has to be imported for the working of the [Tarapur] project for the entire lifetime of the station. If, for any unforeseen circumstances, the supply of enriched uranium is cut off or denied due to world postures, the whole project in that case will be jeopardised." It also thought that "the cost of fuel element for the Tarapur project is on the high side". And it was constrained to observe that the cost of the fuel for the Tarapur project, as given by the AEC on various occasions, differred widely. The Committee expressed hope that, with the perfection of technology of using plutonium in reactors, the station would be operated on plutonium fuel, wholly or partly, and that the need for importing enpressed hope that, with the perfection Committee also censured the AEC for not disclosing information "about the appearance of cracks in the reactor and the loading of fuel that was due in December 1967" in two relevant documents placed before Parliament during the budget session of 1968.

Dependence on the US went further. IGE engaged Bechtel Corporation of the US and Bechtel India for the detailed engineering of the conventional parts of the Tarapur station. The US Agency for International Development had in fact stipulated provision of consultancy with its base in the US, as one of the conditions to its financing of the project. Accordingly, from among the 18 proposals received, Kuljian Corporation of the US and Nuclear Utility Services with McLain Associates were appointed and Kuljian India co-ordinated the joint effort. The Tarapur project was finally commissioned after a long delay; but even so, the government took a long time in determining the damages to be recovered from IGE.

More recently, the AEC and the Tarapur management have largely blamed the under-capacity operation due to the low offtake of power by Gujarat for the damages to plant and fuel. The parliamentary committee had long ago suggested a firm written agreement between TAPP and the states of Gujarat and Maharashtra on supply quantum and conditions; this was not done in time, however, and contributed to poor maintenance. Nor, for that matter, have the maintenance and refuelling schedules been adhered to.

Must Business Economists Be Objective?

(From a Special Correspondent)

THE Fourth Annual Session of the Business Economists' Group was held in Delhi on February 25 and 26. The subjects discussed were the Economic Outlook for 1972-73, Economics of the Automobile Industry, Uncertainty in Corporate Planning and the Mid-Term Appraisal of the Fourth Plan.

Economic Outlook for 1972-73

True to their dismal calling, the economists were worried about the economic outlook of 1972-73. While the agricultural harvest had been satisfactory and growth of the tertiary sector, propelled by *etatism*, seemed to be satisfactory, it was suggested, in the papers of J C Rao as also M Mohan and Tapan Piplai, that the rate of industrial growth would not exceed 5 per cent in 1972-73. P B Medhora argued that the growth rate of industry should be projected on alternative assumptions of no change in government policy and of significant changes in policy (an issue which was also discussed later in the session on the Mid-Term Appraisal). Even without any change in policy, the emergence of Bangladesh would have an impact on industry, particularly in the eastern region. Medhora argued that the policy issue was not of raising the level of investment as of increasing government expenditure in order to utilise capacity in industries like railway wagons. Pitamber Pant suggested that such expenditure itself depended on investment decisions by the government and the private sector.

Ashok Desai referred to the long-term trend which seemed to suggest that because of industrial inflation the capital output ratio was rising. Ranga Rao pointed out that cement output had to be curtailed as a result of non-availability of wagons. Both Mohan and R S Sharma felt that it was not so much lack of demand as the restrictions on big houses which inhibited industrial growth. Fredie Mehta argued that nobody had clearly defined what was meant by the joint sector, thereby causing uncertainty among business houses.

There was also some discussion on the price level. V S Bhave argued that prices were likely to rise in 1972-73. P C Joshi suggested that demand for cash balances fluctuates widely in India and inquired whether income generated by deficit financing had gone into hoards. V T Mathews suggested that a part of the increase in money supply had been impounded by banks and this might help to curb the price rise. He was also more cheerful about the prospects in 1972-73 on government account, mainly because of the emergence of a friendly government in Bangladesh.

Fredie Mehta, however, referred to a major factor which might inhibit industrial growth in the next year, namely, the US aid withdrawal. Stoppage of US aid would affect severely imports of items like copper, soyabean oil and fertiliser materials. P K Sunderasan claimed that his study showed that this would not be a severe deterrent since there was a large aid pipeline of almost $ 400 million. Bimal Jalan intervened to say that the country had to deal with a turnround in foreign balance of about $ 450 million (US aid of $ 300 million plus repayment obligations of $ 125/150 million). He argued that while the short-term reserves could be used to meet it, the problem had to be looked at from a long-term point of view. In this connection he raised the issue of whether the available foreign exchange resources should be used to activate unutilised capacity in industry or to raise the rate of investment in the economy.

Automobile Industry

The second session on the Automobile Industry threw up for discussion various issues regarding government and industrial policy. K T Merchant had raised a number of issues in his paper, particularly regarding the scale of output, priorities between public and private transport and implications of the Supreme Court's decision on car prices. P C Randeria brought out the contradictions in the government's policy in the context of the emerging technological changes taking place in the industry. As regards the scale of output, while automobiles lend themselves to economies of large-scale production, recent government decisions on additional capacity seemed to fragment total capacity among a still larger number of manufacturers. In this connection there was also a suggestion that there might be mergers to obtain economies of scale. Significantly, many economists (for example, S M Chainani and Piplai) argued that this was not feasible in India — despite experience the world over of mergers in this industry. H K Paranjape raised the issue as to why mergers were proposed only by non-industry interests and why the units themselves seemed to be wholly unconcerned about such proposals.

Paranjape raised the question whether the government should at all concern itself with car manufacture in any way. He raised for discussion the issue whether public resources and policy should not be concentrated on the development of public transport (commercial vehicles) and two wheelers. There was a suggestion (for example, from Sharma) that our manufacturers were philanthropic enough to sell at a loss and that it would be advisable to let them continue to do so. Sunderasan argued that scooters and cars have different demands and, despite family planning, India needed cars for family transport.

There was some discussion on quality and prices. Gopal Rao noted that the Tariff Commission Report had shown that for many components Premier Automobiles paid higher prices than other manufacturers. To this there was the counter plea that this might be the reason why the Fiat is a better car. Bhave argued that the quality of cars need not be determined only by the fact of a sellers' market; management philosophy (as in the case of TELCO) is an important determinant of quality.

Following K T Merchant's suggestion that import of cars might be allowed, it was suggested by some economists that a requirement of export of cars might help to improve the quality of Indian cars. On the other hand, P C Randeria asked whether concentration on local production of commercial vehicles and two-wheelers and on manufacture of components for export in exchange for import of cars might not be a worthwhile policy to pursue.

Corporate Planning

The paper by Mote, Patil and Shah on Corporate Planning and Uncertainty emphasised the need to include uncertainty as a factor in making investment decisions and gave examples of how this could be done in specific cases. There was some philosophic discussion regarding measurement of uncertainty and it was suggested that while some uncertainties might be quantifiable, others are intangible and might not be quantifiable.

V D Lall argued that it might not be possible to apply methodology developed in other countries to India and that

it would be desirable to use assumptions appropriate to the nature of uncertainty in underdeveloped countries.

T P Subramonian explained that industrial units subsumed the factor of uncertainty, geographical or industrial, in the acceptable rate of return sought in a particular investment. However, he emphasised the role of judgment in allowing for uncertainty.

The final session was on the Mid-Term Appraisal of the Fourth Plan. Bimal Jalan argued that the Fourth Plan was about a year behind schedule. He referred to the larger gap which had emerged in the balance of payments and inquired how it should be met, whether by drawing down of reserves, by seeking more aid or by increasing exports and reducing imports. Ashok Desai felt that the basic problem was of management of the economy and argued that the incentive to invest was weak.

Fredie Mehta broke up the problem for discussion under various heads and suggested that savings might be the first issue to be discussed. Medhora argued that the fall in government savings had been much larger than the fall in the overall savings rate. In this connection, he suggested the need to increase the government's savings by taxing the surplus in various sectors like trading and imports. B S Minhas argued that 1965-66 was the watershed year in savings, after which savings had shown a tendency to decline; even corporate savings, he pointed out, had fallen after that date. However, Minhas's attempt to sell rural debentures (perhaps till such time as taxation took over) did not seem to enthuse the business economists.

In this connection, Fredie Mehta raised the question whether in the coming budget the government would be justified in increasing the level of deficit financing in order to raise the rate of growth — till such time as taxation of agriculture raised additional resources. B S Minhas argued that the recent growth in agricultural production was concentrated in some specific regions and was not as susceptible as in the past to the vagaries of the monsoon. He asked if it would be an acceptable solution if the government controlled the prices of seven or eight commodities and left the prices of others free to react as they would under the impact of deficit financing. Medhora argued that the point to consider was not the volume of deficit financing (the high deficit financing of 1971-72 had not led to the increase in the price level it might have, had the economy been operating at full capacity) but the rate of investment. An increase in the level of investment might come up against the foreign exchange constraint, now made more rigorous by the stoppage of US aid. Joshi argued that the kind of policy suggested by Minhas might lead to distortions in supplies. Mohan worried that increased deficit financing might have an adverse effect on business psychology.

Fredie Mehta then raised the problem of the balance of payments over the remaining period of the Fourth Plan. Minhas explained the calculations made by the Planning Commission which show a deficit on the balance of payments. Jalan pointed out that while originally the aim was that India should have a zero deficit in 1980-81, the US decision had advanced this contingency to an earlier date. Medhora argued that the State Trading Corporation apparatus should be used to generate the required export surpluses. Fredie Mehta was diffident about such a policy — for example, in steel. There were suggestions that in the next few years imports of steel, cotton and fertilisers were likely to come down substantially.

Mehta asked whether, now that the country had again lapsed into a regime of multiplicity of export incentives, it would not be wise for it to go in for a dual exchange rates system. Joshi argued that export incentives operated only on one side of the balance of trade mechanism. However, the main problem before the economy was that of scarcity of resources. Jai Krishna questioned the basis on which export subsidies were given. At the same time, export duties on jute, while levied possibly on revenue considerations or because exports of jute were inelastic, seemed a disincentive to exports. He also cautioned that with the Bangladesh jute industry operating at full capacity, India's jute exports would decline in 1972-73.

The discussion at the Annual Session of the Business Economists' Group also raised various issues regarding the role of economists in industry and regarding the future of the Group itself. Business economists were apparently very keen to advertise their objectivity in the suggestions made by them; even Minhas wanted economists to argue *qua* economists. While this might be valid for detailed analysis of the points at issue, it is not certain whether policy prescriptions can be independent of the value judgments of economists.

Secondly, there seemed to be a reluctance among the participants to narrate, or to draw conclusions from, their own personal experience in industry. Economists tended to argue on general points — for example, on the implications of stoppage of aid. However, no business economist was willing to mention how this particular decision would affect his particular business. Perhaps economists are not that involved in decision-making at the enterprise level as their glamorous designations make out.

Thirdly, the discussion threw up many areas where there is need for intensified research at the macro level. For example, nobody knows what is happening to inventories of goods at various levels; so also, no economist is able to explain what is happening to the rising incomes which, all accepted, were being earned in the agricultural sector. Perhaps the Reserve Bank might usefully take up these areas of research.

Finally, now that there is talk of formalising the Business Economists Group, some *business* economists who otherwise never took any part in the discussions showed keen interest in the Group's organisational aspects. Apparently takeover talks are not confined only to businesses.

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UNITED KINGDOM

British Coalminers' Strike in Perspective

L J Handy

THE seven week British miners' strike which ended on February 25 is a landmark in the history of the coalmining industry's labour relations — it was the first official national strike in the industry since the historic thirty-two week strike-cum-lockout of 1926 — as well as being of broader economic significance. It is important, then, that an attempt be made to explain the circumstances of the strike and, in particular, the solidarity of the British miners.

The strike was called in support of a national pay claim. More specifically, the miners' union — the National Union of Mineworkers (NUM) — demanded an increase of between 35 and 47 per cent on prevailing basic, collectively-agreed, wage rates, to which the employers' representatives — the National Coal Board (NCB) — countered with an initial offer of 7 per cent, later increased to 7.9 per cent with the additional concessions of five extra days holiday and a further wage increase of 5 per cent backdated to November 1, 1971 if productivity in the twelve months ending in November 1972 was increased by 3 cwt per man-shift. The NCB's offer was rejected by the NUM's national executive committee by 23 votes to 2 and subsequently by a coalfield ballot as falling far short of the miners' demands, whereupon the NUM's executive committee went ahead with its call for strike action which it was empowered to do by an earlier strike ballot which showed the requisite majority of miners in favour of such action if called for by the union. This, then, has not been the unofficial walk-out of a few men as is the usual form of strike action in the industry — and is quite typical more generally — but rather an all-coalfield strike called and organised by the miners' national union with the support of the majority of mineworkers behind it. This action is all the more noteworthy as the miners, unlike most other union-backed strikers in the UK, received no strike benefit from their union to alleviate hardship during the stoppage (although they would have received government benefits which are payable in such a circumstance).

The most obvious background factor to the dispute and subsequent strike was that the miners, who, when the industry was nationalised (1946), were among the elite of British industrial workers in the pay field, have, in more recent years, seen their relative pay positions gradually deteriorate; since 1957 the average hourly pay of miners has risen at approximately one per cent less per annum, than that of all other industrial workers taken as a group, despite the fact that productivity in mining during this period has, if anything, risen at a faster rate than in industry generally and the miners' average pay is now surpassed by that of many occupational groups which at one time received much less than the miner. But as the relative decline of the miners' pay position has been a gradual phenomenon one is entitled to ask why the miners' union did not take national strike action earlier.

The fact is that the NUM did seek a mandate to call a national strike in 1970 in support of a pay claim, but on that occasion it failed, by a small margin, to get the requisite majority in favour of strike action. Despite the verdict of that ballot, however, many coalfields did come out on unofficial strike even before the result of the ballot was known, and subsequently the required majority for national strike action was reduced by popular vote from 66 per cent of the membership to 51 per cent (which is, incidentally, the majority required by the new Industrial Relations Act if a strike ballot is ordered). This rule change was an important factor in the recent strike but the fact remains that miners have become more united of late in their quest for better pay and their leaders have become increasingly willing to take the initiative on their behalf.

Contraction in Labour Force

The relative deterioration in the miners' pay position may be associated in part with the rather unfavourable economic climate in which the industry has been operating since the sharp draught of competition from rival fields was first felt in the mid-1950s. Cost constraint being the order of the day the NUM became very conscious of the potential effect which rising wage costs, in what was then a labour intensive industry, might have on manpower requirements. Since then, however, the combined effects of technological change — which was necessary to stimulate productivity in particular — and a declining demand for coal, have served to reduce the number of mines in operation from 822 to 289 and employment in the industry from 710,000 to 280,000 between 1957 and the first month of 1972 despite the relatively moderate pay increases awarded to miners during that period.

In the face of what must now appear as an inevitable contraction in the mining industry's labour force it is quite understandable that the miners' union should have considered a more aggressive pay policy designed to maximise the pay packets of its existing members in the shorter run rather than one aimed at maximising the lifetime earnings of members who may be forced out of the industry.[1] Another factor which is of some importance in this respect is the fact that the more prosperous coalfields, such as the East Midlands and Yorkshire, which had felt little of the impact of pit closures until the 1960s, have increasingly been affected by the closure programme. This has inevitably had the effect of making the traditionally less militant miners in those areas more aware of the general problems facing the industry and bringing them more in line with miners in the historically less fortunate areas. Seen in this overall context the recent discovery of a planning document in which the NCB disclosed an intention to close a further 32 pits in the financial year 1972-73 at the cost of some 30,000 jobs, half of which could not be covered by natural wastage, must surely have strengthened the miners' resolve. Furthermore, the knowledge that the industry was at last in sight of turning an annual deficit into a surplus must have had the impact of convincing the miners' leaders that their hand was a good bit stronger than it had been in the past to improve their relative pay position, thus favouring a more generally militant and united platform.

A further underlying factor in the comparative unity of the miners of late, but one which has been paid scant attention to date, is the impact of recent developments in the industry's pay structure, namely the tendency towards more centrally determined and uniform wage payments as between miners of similar skill within and between the various coalfields. At nationalisation miners' pay, with the exception of a few elements awarded nationally during the Second World War to offset increases in the cost-of-living, was determined wholly on a coalfield and pit basis. This method of wage determination meant

that the wages paid to workers performing similar jobs varied markedly and inevitably served to give miners a local rather than a national perspective. Since nationalisation, however, the NCB and NUM have, by a series of wage reforms, gradually moved towards a nationally determined wage structure in which designated occupations throughout the industry are paid at uniform, nationally determined, wage rates. The effect of these wage changes, therefore, has been to shift the emphasis in collective bargaining from the pit and coalfields to the national bargaining table and increasingly unite the miners behind the national leadership upon whom increases in wage standards are now wholly dependent.

But while changes in the form of bargaining helped to promote a national perspective among miners, the wage reforms themselves and particularly the more recent ones of 1966 and 1971 which specifically concerned pieceworkers — the most strike prone sector of the labour force — also fostered grievances. Together, the wage agreements of 1966 and 1971 set the precedent for the complete abolition of piecework in the industry. To bring about uniformity of wage rates, however, it was agreed that future wage increases be graduated so that the highest-paid workers affected by the agreements would get less from subsequent awards than their relatively low paid colleagues until such time as the lower paid were brought on a parity. While this might have been a sound and equitable principle in theory, it inevitably created dissension among the workers who were to lose their wage advantage. Furthermore, the policy meant, in the light of recent price inflation and the average pace of wage increases in the mining industry as a whole, a decline in the real living standards of the highest paid workers. Thus, in addition to creating more unity among miners generally, the more recent wage reforms have served to aggravate the higher-paid (face) workers who stood to gain least from national wage awards — a factor which has certainly been important in the shift towards a more militant stance in the important Yorkshire coalfield.

In addition to the above factors two other circumstances had an important bearing on the recent strike. The first, which is specific to the industry and requires only a mention, is the recent change in leadership at NCB and NUM headquarters and the desire of the new leaders, no doubt, to impress their resolve on their respective organisations. The second and more important factor is the general impact of government policy on the wages front which is clearly designed to use the public sector as an instrument of more general wage control in the attempt to curb the so-called "wages explosion" which has afflicted the UK economy these two years past.

Events on the UK wages front escalated towards the end of 1969 with the phasing out of Incomes Policy,[2] which seems to have been the 'sacrificial cow' for the then Labour government's proposed Industrial Relations Bill to which the trade unions were hotly opposed, and subsequent rundown of the National Board for Prices and Incomes. Thereafter, unprecedented wage increases of between 20 and 30 per cent became quite common as unions sought to capitalise on the breakthrough. Obviously this situation had to be checked and, although the present Tory government has refused to set up formal machinery for the purpose, it has, for the past year or so, attempted to induce collective bargaining to operate within wage norms of first 12 per cent and more recently 7-8 per cent. Like all such edicts, this one bears most heavily on those groups who did not succeed in making 'hay while the sun shone'. More importantly though, it has been seen as deliberate discrimination against workers in the public sector who, by virtue of being covered for the most part by national wage agreements, are more obviously in the public eye, and are therefore regarded as easier to pressurise. It was in this atmosphere that workers in the public gas industry recently settled for a pay increase of 7 per cent at a time when workers and employers in the privately-owned toolrooms of Coventry were quietly ignoring government exhortations and agreeing to wage increases of 20 per cent on basic rates which were already more than double the average base rate of manual grades in the gas (and coal) industry.

Quite apart from the discriminatory aspect of the government's present attempts to curb wage inflation *per se*, the policy is having the effect of eroding the public sector unions' faith in the freedom of their employer representatives to negotiate. In pre-strike negotiations, the NCB eventually raised their offer to the miners to 7.9 per cent (0.1 per cent below the prescribed norm for public sector bargains) and, although it claims to the contrary, might well have gone higher and thus possibly averted the strike, if it had not had its hands tied by the government. In the same way, the recent tendency of the government to disfavour arbitrators who have given awards which, although justifiable in the light of their findings, have been contrary to the government's prescribed norm for pay increases, is undermining the unions' faith in arbitration procedures — a factor which accounted, in part, for the mineworkers refusal to use their own arbitration procedure as a means to a settlement in the recent dispute and finally led the government to appoint a Court of Inquiry under Wilberforce to investigate the miners' claim.

None of this is to say that a national policy on wages is not needed in the UK; clearly it is. But it is absolutely imperative that such a policy must be seen as working in a fair manner and of that there is little evidence at present. The Wilberforce Inquiry has, after investigating the circumstances of the dispute, reportedly recommended pay increases to miners of between 15-31 per cent and this has been the basis for an acceptable settlement and a return to work. As Wilberforce's pay packages are notoriously difficult to estimate in percentage terms, the Inquiry's recommendations might well imply wage increases to the miners in excess of the percentages reported — the 7½ per cent which the government claimed his inquiry had recommended for power workers and the 15 per cent which the union claimed had been recommended, following a dispute in the electricity supply industry last winter, has since turned out to be in excess of either figure. The important point though, is that in addition to being above the NCB's final offer before the strike occurred, the Inquiry's recommendations and present settlement are also well above the norm of the government's deflationary wages policy. There is a real danger, therefore, that the flood gates will remain open for above norm wage settlements, for some time to come. It must now be plain to all, however, that a more scientific approach is badly needed on the question of pay structures and policies in the UK if similar confrontations as we have witnessed of late are to be avoided.

Notes

1 L J Handy and K J Wigley, "The Mines: Supply and Demand", *New Society*, November 12, 1970, London.

2 H A Turner, "Collective Bargaining and the Eclipse of Incomes Policy: Retrospect, Prospect and Possibilities", *British Journal of Industrial Relations*, July 1970.

TOKYO

Factional Struggle for Succession

Gene Gregory

SINCE the end of the Second World War, changes of government leaders in Japan have evoked little interest abroad. The world had not yet gained an awareness of Japan's economic prowess in 1964 when Eisaku Sato succeeded the late Hayato Ikeda to the premiership, a post he has held longer than any other political leader in modern Japanese history. China had not yet exploded its first atomic bomb, and the fortunes of the world still seemed to be determined by the antics of the two super powers, the United States and the Soviet Union. In such a world, there was no question of where Japan stood and what its role would be.

But all that has changed now. In the new multipolar world, Japan is one of the important elements in a new pentagon of power which includes China and Europe along with the two nuclear giants. If by 1970 Japan's new world role had become a fashionable subject for speculation by the pundits, last year, Nixon's moves toward a detente with China, his new economic policies which succeeded in forcing a revaluation of the yen and the hard realities of the US-Japan textile accords, all served to cut the umbilical cord that had tied Tokyo to Washington since the 1952 Peace Treaty, leaving the Japanese to fend for themselves in a world where the rules of the new game of politics have yet to be written.

No one was more bewildered by this sudden moment of truth than prime minister Sato himself. "I thought it was going to be a year of domestic affairs", Sato reportedly confided to one of his aides recently, "but it turned out to be a year of foreign affairs." But Sato's successor — for it seems to be a foregone conclusion in Japanese political circles that Sato will not seek another term — will be confronted with even more serious problems of international relations as Japan charts a new course to face up to the challenges of an "era of transformation".

In view of the present overwhelming strength of the Liberal-Democratic Party (LDP) in both Houses of the Diet, the ruling party that guided Japan through the difficult era of post-War recovery and the triumphant years of rapid economic growth appears certain to inherit the responsibility for shaping Japan's new foreign policies in the years ahead.

Two major problems will confront a new leadership in its search for what Japanese refer to now as a post-post-War equilibrium: normalisation of Japan-US relations and restoration of relations with China. In the process, the post-Sato leadership will also be expected to reach a settlement with Moscow which would return the Kurile Islands to Japan, to assure Japan's strategic interests in Korea and Taiwan, to find new approaches to stability in South-East Asia and to fashion a new, positive role for Japan in the formulation of world trade and monetary policies.

This is a tall order for a nation which must, perforce, move cautiously onto the world scene. Just as Japan is uncertain as to what role it should play in world affairs, there is no consensus among the industrial countries or the 'Third World' as to what role the Japanese can best play. But on one thing all are pretty much agreed. Japan, which has long been something of an isolated outsider on the rim of the Asian continent, must be fully integrated into the world community.

By happy coincidence, the candidates who are now manoeuvring for a final bid to succeed Sato have all had considerable experience in foreign affairs. Takeo Fukuda, the present foreign minister, is by all accounts the front runner in the contest, followed closely by Kakuei Tanaka, international trade and industry minister, former foreign minister Takeo Miki and former international trade and industry minister Masayoshi Ohira.

The Gathering Storm

At present, the room for speculation about the outcome of the election is limited. Since the president of the ruling party automatically becomes prime minister, everything hinges on the LDP'S intraparty struggle now in progress.

The deciding vote must be taken by a majority of the party's 301 members of the House of Representatives, 134 members of the House of Councillors and representatives of the 47 prefectures. The only statutory qualification for election as president is that he must be a Dietman belonging to the party. If no one obtains a clear majority on the first electorate round, a runoff election is held between the two top contenders. And when the new president is elected, the cabinet automatically resigns to make way for the Diet to appoint the new president as prime minister.

One certainty now is that there will be no candidate who can win a majority in the first balloting unless one competitor or more can withdraw from the contest as a result of behind-the-scene manoeuvrings. While no one pretends to know for certain who Sato's choice will be once he announces his retirement, there are good reasons to believe that his preference would be for a coalition btween the Fukuda and Tanaka forces thus assuring the strongest possible constellation of power within the party to face the difficult problems of the years ahead and avoiding a bitter contest that would leave bad feelings among party leaders in its wake.

The fact that Sato's concern is shared by other 'mainstream' leaders may work in favour of such a solution. "A Kaku-Fuku War [the term used in current Japanese parlance for the mounting struggle between *Kakuei* Tanaka and Takeo *Fukuda*] during the next presidential contest must be avoided at all costs", House Speaker and leader of the Funada faction, Naka Funada, commented recently. And since Funada is eager to avoid raids on his own faction by the two leading contestants and has his eyes firmly set on the party's vice-presidency, he can be counted on by Sato to play the role of marriage broker between Tanaka and Fukuda.

However, if Sato has succeeded in keeping everyone guessing about his choice of successor, it is widely believed among knowledgeable political observers that his personal preference would be for a Fukuda regime to follow him in power, a prospect which Tanaka and his supporters have given no indication of being prepared to accept.

While Sato's closest confidants stress that "it is still too early for the prime minister to take concrete steps" to press Fukuda and Tanaka toward some kind of mutual pact which would deliver the presidency to the Fukuda forces, he seemed to be moving in that direction in early January when he took the two ministers with him to the San Clemente meeting with Nixon.

Chances are that before the in-fighting gets very serious, Tanaka, one of the prime minister's closest lieutenants and the most likely heir to the leadership of the Sato faction within the party, may succumb to his mentor's entreaties that he close ranks with Fukuda.

But this is still far from certain. Tanaka and his followers know that they hold the key to Fukuda's victory in the first balloting, and they question the

advantages to be gained from co-operating with Fukuda. Those professional politicians who have been chafing under the dominance of the "bureaucrats" (ex-civil servants) in the party, see in Tanaka, the only non-bureaucrat among the mainstream leadership, a chance to give new life and direction to the post-Sato party.

While control of the Sato faction, the largest in the party, might be sufficiently attractive in a trade-off against support for Fukuda, more than 10 of the 60 members of the Sato faction, including LDP secretary-general Shigeru Hori, are antagonistic to Tanaka. If Tanaka were to agree to an Ohira-Tanaka alliance to stop Fukuda, as he has promised, the Sato faction will split into two groups led by Hori and Tanaka.

There most certainly are some fairly firm grounds for the Ohira-Tanaka combine. Ever since the time of Ikeda's premiership, Tanaka and Ohira have been on the best of terms. And since Tanaka has cautiously refrained from committing himself to Sato's China policy, with which Fukuda is clearly identified, it may be on this issue that he will combine with Ohira to make a joint bid for the support of the Miki and Fujiyama factions, both openly critical of Sato's *de facto* two-Chinas policy.

But the effects of a head-on Tanaka-Fukuda clash would be most damaging to the five neutral factions within the party. Past experience and the logic of political dynamics show that the internal solidarity of the smaller groups is undermined by 'raids' conducted by candidates who are striving to pick up as many floating votes as possible.

Under Funada's leadership, the five neutral factions, which include the Mizuta, Ishii, Sonoda and Shiina groupings, could stave off threats to their present strength and help bring about a Fukuda-Tanaka solution by banding together as a bloc. Together these groups comprise nearly 100 members, which is considerably more than the Sato faction and could have a decisive influence over who is to become the party's next president.

In the final analysis, however, much will depend upon Sato's timing of his retirement. For the past two years, speculation on the date of Sato's departure from the political scene has been a favourite pastime in Japan. But, until now, Sato has shown himself the master of suspense. No one seems to have a clue about his real intentions.

One theory has it that he will resign within thirty days after the reversion of Okinawa to Japan. Since this is likely to take place in May or June, this would mean a resignation in June and election of a party president in July.

But during the opening ceremonies of the Sapporo Winter Olympics, Sato dropped the hint that he expected to be around until autumn, as he noted in passing his acceptance of Andrei Gromyko's invitation to visit the Soviet Union. Since this could not be arranged until late summer or early autumn, it might mean that Sato will do the unexpected and serve out his full term ending on October 28.

This would give him more time to work out a quiet compromise between the Fukuda and Tanaka forces, and by arranging talks with the Russians on the peace treaty and Kurile issues, he could steal the thunder of the pro-Peking factions within the party. With Tanaka still keeping his silence on the China issue, chances are good that the reversion of Okinawa and the euphoria likely to follow the first visit of a Japanese prime minister to Moscow will provide the proper *hana-michi* (literally 'flower road', the name of the runway in a Kabuki theatre from which the leading actor makes his grand exit) for the prime minister to leave the scene when his stock is high and his chances of naming his successor are most auspicious.

For a while Sato's career as prime minister seemed doomed to end in failure as it was buffeted by one crisis after another throughout 1971. But Japan's most durable prime minister managed to defend his post and move the nation steadily toward a decision on Okinawa and a more positive role in international affairs.

Now comes the final, and biggest, test: the choice of a successor who will assure the continuity of his policies at home and abroad. But the question remains: who will that be — Fukuda, Tanaka or one of the other minor candidates? If it is Fukuda, chances are that Japan will move toward closer co-operation with the Soviet Union in Siberia and possibly South-East Asia where co-operation between Moscow-New Delhi-Tokyo might emerge as an expression of a mutual interest in checking China. An alliance between Ohira, Tanaka and Miki, on the other hand, could be counted upon to give greater importance to developing closer ties with China.

The Aspirants to Premiership

Fukuda, Takeo (born 1905)
Kishi-Fukuda faction.
Graduated from Law Department of Tokyo University and entered the Ministry of Finance (1929). During his government service, his posts include assistant to the Financial Attache in London and Paris (1930-32), Director of Tax Office in Yokohama (1933), financial adviser of Nanking Nationalist Government in China, Director of Banking Bureau and Director of Budget Bureau before his retirement.
Elected to the House of Representatives from Gumma Prefecture in 1952, and re-elected eight times since then. Took the political posts of: Vice-Secretary-General of LDP (1955-), Chairman of Political Affairs Research Committee of LDP during the second Kishi cabinet (1958-). Secretary-General of LDP (1959-), Minister of Agriculture and Forestry (1959-1960), Minister of Finance (1965-1966 and 1968-1971), Minister of Foreign Affairs (July 1971 to present).

Tanaka, Kakuei (born 1918)
Ikeda-Sato faction.
Graduated from Chuo Technical High School in Tokyo and established a construction design firm and a construction business.
Elected to the House of Representatives in 1947 at age of 28, and re-elected 10 times since then. Took the political posts of: Minister of Posts and Telecommunications in the second Kishi Cabinet (1957-1958), Chairman of policy Board (Political Affairs Research Committee, (1961-1962), Minister of Finance (1962-1964 in the Ikeda Cabinet and 1964-1965 in the first Sato Cabinet), Secretary-General of LDP (1965-1966 and 1968-1971), Minister of International Trade and Industry (January 1971 to present).

Ohira, Masayoshi (born 1910).
Ikeda-Maeo-Ohira faction.
Graduated from Tokyo College of Commerce (now Hitotsubashi University) and entered the Ministry of Finance (1936). His posts in the Ministry included Director of Yokohama Tax Office, Financial Officer in Changchiakow (Kalgan), China, Division Chief of Tokyo Financial Bureau, Private Secretary to the Minister of Finance (1949).
Elected to the House of Representatives from Kagawa Prefecture in 1952, and re-elected eight times since then. Held the political posts of: Chairman of the House of Representatives' Education Committee, Chief Cabinet Secretary under Prime Minister Ikeda (1960-1962), Minister of Foreign Affairs (1962-1964).

Miki, Takeo (born 1907)
Miki faction.
Graduated from Meiji University (Commerce Department in 1927 and Law Department in 1937), studied at Southwestern University, California (1932-1934).
Elected to the House of Representatives from Tokushima Prefecture in 1937, and re-elected 13 times since then. Held the political posts of: Minister of Postal Services (1947-1948), Minister of Transportation (1954-1955), Secretary-General of LDP (1957-), Minister of State in charge of Science and Technology (1961-1963), Minister of International Trade and Industry (1965-1966), Minister of Foreign Affairs (1966-1968).
Miki was the organiser of Kokumin Kyodoto Party and became its Secretary-General (1947). When his party merged with Minseito Party, he became the Secretary-General of the newly formed Kaishinto Party (1952).

Price Stability Is Not All

Report on Currency and Finance, 1970-71, Reserve Bank of India, January 1972; pp ix + 333 + statistics; Rs 18.

THE Reserve Bank's annual Report on Currency and Finance for 1970-71 has at last appeared, many months late. As usual, it presents a comprehensive, if not always analytical, view of the economy during the year. While the country had a fourth good agricultural harvest (1970-71), industrial production showed an early (mid-1970) tendency to decelerate: the production index for the July-December 1970 period was only 3 per cent higher than that for the second half of 1969.

The 1970-71 budgets had a deficit of Rs 455 crores, and the deficit budgeted for 1971-72 was Rs 387 crores; the refugee expenditure and the supplementary budgets were to follow the period covered by the Report. Thanks to the fall in foodgrain imports from Rs 712 crores in 1965-66 to Rs 323 crores in 1970-71, the balance of trade deficit in 1970 was Rs 269 crores only. In the context of the stoppage of aid from the US, it is interesting to note that the deficit with the dollar area was Rs 355 crores in 1970.

Under the impact of these developments, money supply increased by Rs 814 crores in 1970-71. Significantly while the overall price level rose by 3.1 per cent, there was relative stability in foodgrain prices and a small decline in those of industrial raw materials. Prices of manufactures (+ 9 per cent) were the main component of the overall price rise.

Most of the data contained in the Report have, of course, already appeared elsewhere. The Mid-Term Appraisal of the Fourth Plan gives a cogent description of the trends in the economy. Apparently if the economy goes down the drain, it will not be for lack of statistics or economic analyses — or even comments in learned journals.

All the same, the Currency and Finance Report is of relevance on two subjects: the overall level of operation of the economy and the role of banking and monetary policy, both of which lie within the realm of the central banking authority.

Of the three sectors in the economy — the primary, contributing 42 per cent of national income, the secondary (21 per cent) and the tertiary (37 per cent) — the secondary sector is the most amenable to policy influence. The Currency and Finance Report clearly shows that by the second half of 1970 (*vide*, for example, Table 2 on Trends in Industrial Production) growth in industrial production had begun to slacken; it was this trend which got accentuated in the first half of 1971. There were obvious signs of slow-down in the investment rate. The capital goods industries showed considerable slack, under-utilisation of capacity ranging upto 60 per cent. At the same time, imports of machinery and transport equipment came down from Rs 1,034 crores in 1965-66 to Rs 513 crores in 1970-71. This trend occurred after three good harvests, and seemed to cover not only the heavy industries but also consumer goods, particularly consumer durables. The phenomenon of declining demand had ceased to be a sectoral affair within industry and had become industry-wide (excluding only the sectors particularly neglected in the sixties, like paper).

Role of Banking System

While many of the solutions to this situation must lie in government policies, the question does arise whether the banking system itself has a role to play in improving the efficiency of the economy. However, as far as use of bank credit is concerned, ours is one of the less managed economies. Industrial management here is a vested interest and has been able to sit out a major industrial recession without any changes in management practices. There has been little attempt by banks to look closely into management structures and competence and to bring about changes where these were considered necessary. As a consequence, Indian industry has taken the easy option of high prices and low capacity utilisation during the period of the recession, instead of making a vigorous attempt to develop new markets, local and export, to use industrial capacity fully. The country thus has the worst of both the worlds: when domestic market is buoyant, there is no surplus for export; when the domestic market is slack, there is no effort to export. There is no other reason why one-third of industry should continue to operate at less than 60 per cent of capacity utilisation.

This can happen only because banks have old, tired managements and loan supervision practices, inherited from the old days of subserviency to industry, have hardly changed after nationalisation. Few bank managements have close supervision of their loans and the tendency is still to plump for security, rather than make efforts to change the management when an account begins to get into difficulty.

It is in these areas that much was expected of bank nationalisation. At the bank management level, there is need to change the structure of banking organisation to make it function more efficiently. At the credit management level, the problem is to redirect credit flows in accordance with plan priorities, to provide for the use of an increasing proportion of deposits at the sources of their gathering. The opening of branches and financing of the so-called "neglected" sectors can hardly cover up this failure of banks.

The Currency and Finance Report, however, hardly sees the problem of the Indian economy as one of improving the efficiency of the economy. To it "foremost among the aspects of the economy which is causing concern is the price situation" (p 62) and, later, "the most important need of the moment, however, is maintenance of a reasonable degree of price stability in the economy" (p 64).

The data given in the Report show that the price problem is essentially a sectoral problem, a faster rise in prices of manufactures than of food articles and intermediates. In fact, if foodgrain prices were not supported, the same result could perhaps have been achieved without any overall increase in the price-level. Moreover, the present sectoral price movements are a corrective to the abnormal rise in agricultural prices after 1964-65.

However, the present price rise has come about despite good agricultural harvests and despite the fact that the economy is operating at a considerable slack. This is evident in the slow growth of bank credit (enabling banks to reduce considerably their indebtedness to the Reserve Bank), the marginal credit: deposit ratio being around 50/55:100 throughout 1971. In other words, it is the potential liquidity built up in the economy which is the greatest danger to economic stability. If industry were to operate anywhere near full capacity and if the rate of investment were to be raised, this liquidity would get activated, bringing about an inflationary situation. But industrial recovery must take priority over price-stability, which should be a matter for monetary management by the Reserve Bank.



Monetary Policy and Development

Scorpio

Role of Money Supply in a Developing Economy—A Theoretical and Empirical Analysis by Kamta Prasad; Allied Publishers, Bombay; pp viii + 177; Rs 14.

Problems of Monetary Policy in Underdeveloped Countries by P D Hajela; Lalvani Publishing House, Bombay; pp vii + 298; Rs 25.

Monetary Policy and Central Banking in India, edited by V R M Desai and B D Ghonasgi; Popular Prakashan, Bombay; pp vi + 182; Rs 28.

DISCUSSIONS on monetary policy in developing countries have generated more heat than light in recent years. Environments in these countries are entirely different from those assumed by the Quantity Theory and the Keynesian Theory, so that a new theoretical framework has to be evolved to suit these economies.

Prepared originally for his doctoral dissertation, Kamta Prasad's analysis is an exercise in econometrics teeming with co-efficient correlations and regressions. The available data are tested in the context of, first, the Quantity Theory, secondly, the Keynesian Theory, and finally with a more general approach. Applied to the first theory, the data failed to reveal any perceptible effect of money supply on prices and money income in the way suggested by the theory. Two basic assumptions necessary for the successful operation of the theory, *viz*, exogenously determined money supply and a system of relatively flexible prices are present in India; but other assumptions, especially that of constant and independent velocity of circulation, do not hold good. One has therefore to conclude that money income has not been the only factor affecting the demand for money. Also, determination of the rate of interest is impossible within this framework.

The Keynesian model provides somewhat better results. The gist of this theory is that there is an asset demand for money, called 'liquidity preference', and that this demand arises from, *inter alia*, uncertainty of bond prices. This liquidity preference is a negative function of the rate of interest. In India, in spite of the absence of a well-organised stock market, this preference exists because of the excellent scope for speculation in commodity markets. When tested empirically, a significant negative correlation co-efficient is obtained, especially when the volume of securities is treated as a variable, between money-income ratio and the yield on government securities as well as the same ratio and the rate on time deposits. But viewed from total income as against money-income ratio, the correlation is positive—which, according to Prasad, is inconsistent with the rational behaviour of a human being. Besides, these ratios are insignificant for year-to-year changes.

Prasad then develops a general framework in which assets include commodities and the rate of interest and the prices are treated as joint dependent factors. It follows, then, that both general price level and the price of securities depend on the real national income, and the stock of money, commodities, and securities. Since the rate of interest is inversely related to the prices of securities, the same variables determine the interest rates also.

On empirical testing, this framework unearths interesting results. Real income shows a positive, but insignificant, relationship with changes in prices; and prices are negatively related to changes in stocks of commodities. In both cases, the effect on interest rate is insignificant. Moreover, neither the changes in the price level nor the changes in the interest rates are significantly related to the volume of securities held outside the banking system. Perhaps the 'orphan and widow' principle of Joan Robinson is true.

The author accepts that the final approach adopted is basically an extension of Keynesian liquidity preference theory, differing in coverage and volume of assets. The coverage includes commodities, and the stock of assets other than money is treated as a variable in any developing country. He claims superiority in two respects; first, this is a general approach capable of fitting any economy, and secondly, it proves that the effect of money supply on prices is felt through excess demand for goods.

This study reminds one of Don Patinkin's "Money, Incomes and Prices". Patinkin, however, has used a different term, 'real balance effect', instead of stock of commodities. According to Patinkin, any increase in money income held by the public upsets their equilibrium and is accompanied by another increase in real balances. Substitution of money for goods is repeated until a new equilibrium is reached. This process, by and large, explains the relationship between money supply and prices. Yet neither Patinkin nor James Tobin describe commodities as a possible alternative asset, as Prasad does following their argument.

What are the implications of these findings? This question goes largely unanswered. Both price effect and interest effect have a bearing on liquidity effect. When money supply expands, the capacity of the entrepreneurial class to add to their real capital also goes up because of the lower rate of interest. Even when factors are fully employed, they could still be diverted to capital goods production from consumer goods production. Prasad has not attempted to justify these contentions.

Hajela, in his study, agrees that an expansion in money supply results in more income to the entrepreneurs, but holds that they spend it more on consumption. He therefore argues that developing countries should have a dear and cautious and not cheap money policy. For cheap money to succeed, the economy must have a highly organised and well developed money market, investments monetised, the marginal efficiency of capital declining, and labour ready to accept a rise in their cost of living while their real wages decline. None of these assumptions holds in any of the developing countries. On the other hand, fast rising prices release funds from consumers to the entrepreneurs who do not plough them back but spend instead on consumption—mainly imports. Middle-class and fixed-income earners do save, but their contribution is negligible. Sectorwise, agriculture will have a favourable balance of trade, but increased consumption, when food articles are in short supply, will accentuate the rising prices.

Granted growth with stability should be the aim, even a dear and cautious monetary policy may not achieve it. At best, such a monetary policy can play second fiddle to fiscal and direct controls. On the other hand a cheap money policy can destroy the positive effects of strict fiscal policy and controls.

In short, the guidelines for a monetary policy consistent with the require-

ments of growth with stability are:

(i) the rate of interest should reflect the fact of the real capital scarcity;

(ii) as far as possible, money supply increase should not have anything to do with fixed investments, which should be the concern of saving and taxation institutions;

(iii) the banking system itself should be responsible for the needs of the working balances of the economy;

(iv) advance estimates of such balances should be made so that there is no unplanned expansion of money supply—nationalisation of banks should be able to ensure this;

(v) since planned money supply would have to rest on the assumption of some 'non-financial' policies, government should not only be clear and categorical about these policies but should be prepared to apply proper measures to implement them.

With this framework in mind the policy pursued by the Reserve Bank of India is critically examined in detail.

On the existence of numerous long-term industrial finance institutions Hajela is more critical. The present arrangement only makes for lack of co-ordination between the savings and investment efforts of the economy and results in unbalanced growth leading to an inflation spiral. Hence a National Savings Corporation, completely financed by public borrowings, and a National Investments Corporation, should be established. The latter could have three wings, one each to look after the needs of large-scale industries, small-scale industries, and agriculture. This structure would be far simpler and would help to impart a better sense of proportion and perspective to governmental policies than the present arrangement does.

Prasad's contention, that increased money supply should result in a reduction in interest rates, is not acceptable to Hajela. Accepting Don Patinkin's real balance effect which fits in with Keynesian analysis, Hajela stresses the importance of commodities as a stock of assets. Given a cheap money policy, speculators — who are essentially well-to-do people — find it profitable to hoard even at the higher interest rates. The greater their desire to hold goods, the higher the demand for money — and this higher demand decides interest rates.

One of the outstanding features of these two studies is that Prasad's analysis can be easily questioned. For example, his acceptance of Say's Law of demand and supply, on which he has based his entire theory, may not be valid in Indian conditions. Nevertheless, Hajela's study is dynamic and useful in policy formulations. His logical arguments raise one's hopes that, given proper circumstances — such as enunciation of a national consumption policy correlated to production and stocks of goods — a dear and cautious monetary policy may succeed in delivering goods and pave way for growth with stability.

The third book, edited by Desai and Ghonasgi, is a collection of seven essays with an epilogue. These essays deal with various measures of monetary policy, structure of money market, non-bank financial intermediaries, and liquidity preference theory for India. Besides the fact that these essays run generally on the same age-old pattern their scope is also limited to India. Joshi's article on non-bank financial intermediaries reveals that these institutions have a very limited part to play and that Reserve Bank's credit controls need not therefore be extended to them. Alak Ghosh's article on open market operations of the Reserve Bank of India reveals that this is being used in India as a fiscal device rather than as a monetary weapon. Brahmananda examines interest rates and concludes that this measure loses its effectiveness if the fiscal authorities refuse to co-operate, and in India such co-operation has not existed so far. The essay on liquidity preference by Doodha is a collection of borrowed criticisms from Narvekar of two papers presented by V V Bhatt and A G Chandavarkar. Rosalind in "As You Like It", says: "If good wine needs no bush a good play no epilogue"; this book contains one.

NOBODY CAN FIND OUT WHOM YOU VOTE FOR BECAUSE....

* The procedure for counting of votes has been modified.

* After voting, all ballot papers from all polling booths of a constituency will be put in a big container and mixed up before actual counting.

* Thus, nobody can know even the trend of voting either in a village or at a polling station.

This procedure will be followed in the presence of the candidates, their counting agents, Returning Officer and counting supervisors.

S. P. SEN-VARMA
Chief Election Commissioner of India

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Price Information Associated with Principal Distributions of National Income

M Mukherjee

For practical reasons, it may be desirable to separate the basic problem of valuation of national product from the problem of deflation. Since, in most countries, deflation is a more approximate process than basic valuation, it may be permissible to use a weaker price basis for deflation than for valuation.

However, if the real change in national output is regarded as more important for policy purposes than the estimates at current prices, then the price basis for deflation needs as much attention as the price basis for valuation.

It follows, also, that the separation indicated can be avoided if adequate attention is paid to the price basis of all value flows at current prices every year—even when available statistics supply, directly, only the value counterpart of some of these flows.

Section II of this article examines the problem of lack of comparability in the available information on prices and volumes, in the context of the procedure used to obtain the Indian official national income statistics which give a distribution by industrial origin. Section III then considers the problem of valuation of the other distributions: by size, by final expenditures, and by regions.

An examination of the distributions of national income in India other than the one by industrial origin shows that, in several cases, it is possible to split up many elements of the distributions into price and quantity counterparts. Of these, the quantity counterparts are usually more reliable than the price counterparts. The position is comparable with that observed about the distribution by industrial origin.

The study of the price base of all available Indian national income distributions thus brings out several points. The salient point that emerges, however, is the relative weakness of the price base. Even in countries in which the income estimates are far from reliable, the price information may be weaker than the quantity information. To improve the national income estimates, to make the sectoral deflators reasonable, and to tie them up with other bodies of price information available in the country, it may be wiser then to concentrate first on the improvement of the price information in many of the sectors. Overall precision of the estimate of NDP may increase more quickly if this procedure is followed—unless, of course, it is established, on the basic of empirical studies, that the variability of price information is very much smaller than that of the quantity information.

I

Introduction

CORRESPONDING to any distribution of national income or any system of national accounts, since we can conceive of all the entries or most of the entries both at current prices and at constant prices, we can think of an associated price structure obtained by dividing the entries at current prices by those at constant prices. In the usual types of national accounting framework, it is possible to think of *all* the entries both at current and at constant prices — because some of the entries which cannot be deflated directly can be deflated by virtue of the accounting identities. Similarly, in all customary distributions, most entries barring a few exceptions are conceivable both at current and at constant prices.

Deflation is unambiguous only when a value flow (v) can be split up into a volume or quantity (r) and a price (p) i e, when $v = r \times p$. When such split-ups are difficult to conceive, as in the case of many factor incomes, say a profit or an interest or a transfer of funds from abroad, the deflation procedure is not unambiguous, and it is necessary to make certain assumptions before we can proceed from a flow at current prices to a real flow. Insofar as distributions are concerned, no difficulty is encountered for distributions by industrial origin, by type of institutions, and by final expenditures. On the other hand, the intermediate distributions — by factor shares and by size — are difficult to deflate.

Two types of problems arise in connection with a joint study of value, volume, and price. While in many cases, volume (or quantity) and price are first obtained and together these give the value, in many other cases value and price are first obtained and the volume is worked back from these. The first way of considering the matter is appropriate when we are thinking at the level of extreme disaggregation; but the second way of reckoning the matter is relevant when we are considering aggregate flows. However, in either case, it is necessary to consider the prices separately. As we shall see subsequently, the statistical basis of the price information appears to be weaker in India than of the volume and value data. In view of this, when value flows at current prices are accurate, those in real terms could be inaccurate. When, on the other hand, the quantity elements, such as production index numbers are reasonably accurate, weakness of price data leads to larger inaccuracy in the corresponding values at current prices. This is largely because the prices used have inadequate coverage, while the corresponding quantities or values are not infrequently based on a reasonably complete coverage of the universe. The primary purpose of our paper is to illustrate this

TABLE 1: COMPARISON OF CONVENTIONAL AND REVISED PRICE ESTIMATES FOR THE AGRICULTURE SECTOR

Class Ranges of the Price Ratios: Conventional Price as Per Cent of Revised Price	Frequency
89.9 and below	4
90-94.9	3
95-99.9	6
100-104.9	15
105-109.9	7
110 and above	15
	50

Source: Brochure.

proposition in the light of Indian national income statistics.

For practical reasons, it may be desirable to separate the basic problem of the valuation of national product from the problem of deflation. Since deflation is a more approximate process than basic valuation in most countries, it is probably permissible to use a weaker price basis for deflation than for basic valuation. But if real change in national output is regarded as more important for policy purposes than the estimates at current prices, then the price basis for deflation needs as much attention as the price basis for valuation. It follows, also, that the separation indicated can be avoided if adequate attention is paid to the price basis of all value flows at current prices every year, even when available statistics supply directly only the value counterpart of some of these flows.

The problem of lack of comparability in the available information on prices and volumes is considered in the next section, in the context of an examination of the procedure used to obtain the Indian official national income statistics which give a distribution by industrial origin. In the last section, we consider the problem of valuation of the other distributions: by size, by final expenditures, and by regions.

II

Price Statistics and National Income Estimation by Industrial Origin in India

The basic Indian income aggregate, the NDP, is obtained by summing up values added in a number of major industrial sectors.[1] For agriculture, animal husbandry, forestry, fishery, mining, and manufacturing industries, the approach is to take out the inputs out of the output to obtain the added value. For railways, communications, banks and insurance, and government, the contribution to NDP is obtained by isolating and adding the factor income flows originating in the sectors on the basis of current accounting data. For the remaining sectors in the conventional series — small industries, trade, and non-railway transport, professions, domestic service and house property — the estimates of contribution to NDP are based, by and large, on a projected estimate of labour force (and number of houses in the case of house property) and an estimate of average earnings. For most of the sectors in the first category, the estimate of added value is based on independent data on prices. We shall pay particular attention to this group of sectors in our analysis. The sector, manufacturing industries, however, is an exception; the estimate of added value here is based on annual accounts of transactions.

Insofar as agriculture sector is concerned, the value of cereals was slightly more than 40 per cent of the total value of the sectoral output in 1960-61. Since the added value in agriculture is roughly 50 per cent of the Indian NDP, it follows that about a fifth of the Indian NDP is contributed by cereals. Here the coverage of the production data is reasonably complete. Earlier, some adjustments were made for under-coverage of area under crop, but recently this adjustment has been reduced drastically — from 4 per cent to 0.35 per cent[2] of the total value of output. It is pertinent to examine the coverage of price statistics used for evaluation of the output of cereals. Is the coverage here as satisfactory as in the case of production statistics?

Of the two official series of national income in India, the Conventional Estimates (CE) are based, by and large, on the methodology laid down in the First and Final Reports of the National Income Committee, published in 1951 and 1954, respectively, while the Revised Estimates (RE) incorporate various methodological innovations introduced by the National Income Division of the CSO. Both the series have a better data base today, but RE is better served in this regard. Insofar as the agriculture sector is concerned, out of 69 items by which the aggregate value is estimated in RE in 1960-61, 10 have no independent price base. In CE, this number is 19. The items for which there is no price base are, however, unimportant; they cover only 3.72 per cent of the total value. It follows that it is possible to compare the price estimates in the CE and RE for as many as 50 items. This is attempted in Table 1. It will be observed that the price bases are different for the two series and the differences are sizeable in a number of cases. This suggests that prices may contribute in a significant way to the overall error of the sectoral added value.

Let us examine the position in respect of the seven major cereals which contribute a little more than 40 per cent of the total agricultural output in some details. The number of centres on which the price averages are based is given in Table 2 side by side with the number of crop-cutting experiments on which the estimates of yield rate are based. The figures in column 3 have been obtained roughly by multiplying figures in column 2 by 12, on the assumption of a uniform 12-week harvesting period. In any case, since observations in the same centre may be auto-correlated, it is difficult to give the numbers in column 3 the status of fully independent observations. Further, the centres are not selected in a random manner and do not form a representative sample. On the other hand, the cuts are selected following principles of random sampling, and they can be regarded as independent observations. The information on crop area in India is based, by and large, on complete enumeration. While many biases can exist in the area estimates so obtained and one can complain about the

TABLE 2 : BASES FOR PRICE AND YIELD RATE DATA, 1958-59

Crops	Number of Price Centres	Estimate of Number of Price Observations	Number of Cuts Analysed	(3) as Per Cent of(4)
(1)	(2)	(3)	(4)	(5)
Rice	151	1812	13728	13.2
Wheat	88	1056	11900	8.9
Jowar	61	732	10547	6.9
Bajra	33	396	7172	5.5
Barley	29	348	3591	9.7
Maize	50	600	3978	15.1
Ragi	21	252	856	29.4

Sources : (i) Proposals for a Revised Series of National Income Estimates for 1955-56 to 1959-60, CSO, 1961—henceforth to be referred to as the Blue Book.
(ii) Report of the Technical Committee on Crop Statistics, Planning Commission, 1968.

TABLE 3 : REGIONAL VARIATIONS IN PRICE OBSERVATIONS ON CEREALS, 1958-59

States	Price Observations		Production of Cereals	
	Number	As Per Cent of Total	In Thousand Tons	As Per Cent of Total
Andhra	31	7.16	5943	9.73
Assam	9	2.08	1628	2.67
Bihar	32	7.39	5667	9.29
Bombay	43	9.93	7772	12.73
Kerala	6	1.39	948	1.55
MP	49	11.32	7187	11.77
Madras	23	5.31	4275	7.01
Mysore	23	5.31	3361	5.51
Orissa	17	3.93	2207	3.62
Punjab	34	7.85	3843	6.29
Rajasthan	30	6.93	3555	5.82
UP	89	20.55	9330	15.27
West Bengal	21	4.85	4153	6.81
Jammu and Kashmir	16	3.70	527	0.86
Union Territories	10	2.30	651	1.07
Total	433	100.00	61017	100 00

Source : (i) Blue Book.
(ii) Estimates of area and production of principal crops in India, 1962.

TABLE 4: NUMBER OF PRICE OBSERVATIONS FOR THE ANIMAL HUSBANDARY SECTOR BY STATES, 1958-59

States	Milk	Ghee	Dahi	Butter	Meat	Hides and Skins	Poultry	Eggs	Wool	Total
Andhra	2	5				5			1	13
Assam	2	11	1	1	3	2		1		21
Bihar	1	4		1						6
Bombay	3	17		1	5	2	1	1	2	32
Delhi	3	3			2	2	1	1		12
Himachal Pradesh	28	35	17		43	55	13	27	18	236
Kerala		2			2			1		5
MP	38	18	34	20		121		36	9	276
Madras	3	7		1		8	12	13	10	54
Manipur	2	2								4
Mysore	12	20		1		70	1		7	111
Orissa		1				2				3
Punjab	25	34		5	41	22	6	14	2	149
Rajasthan	1	3				4			7	15
Tripura	9	1								10
UP	31	41	19		17	46		12	3	169
West Bengal	13	3		4	5	15	8	15	2	65
Total	173	207	71	34	118	354	42	121	61	1181

Source : Blue Book.

quality of data arising out of the measurement procedure, a huge organisation is engaged in the task of area reporting and it is not possible to assert that effort is lacking in extent. Thus, probably we depend on too few price observations to get out annual estimates of value. A procedure like this can be justified only if we have a prior knowledge that the variability of price data is substantially lower than that of production data.

The price data used also do not give a satisfactory representation of the different states of India. This is brought out in Table 3 in respect of cereals only. The estimates of production of cereals by states given in this Table show that there is some correspondence between the quantities involved and the number of price quotations. Thus the accuracy of the all-India value estimate is not unduly affected by the allocation. But some state estimates must be, indeed, very weak.

The position about the animal husbandry sector is similar. Here the value of output is estimated by 31 items, of which RE gives separate prices for 27 items and CE for only 17 items. A comparison of RE and CE prices shows wide differences, the price ratios (CE/RE) ranging from 39.4 per cent for adult fowls to 133.4 per cent for wool. Table 4 gives an idea of the volume of price information used. Here again the regional and itemwise variation is considerable. Secondly, the figures here stand for actual quotations and not for centres, and consequently the volume of the material is small. Further, the price material is far from uniform as the following quotation shows: "The estimates of value of output have been worked out by evaluating the state production at the corresponding average annual wholesale prices duly deflated for trade margins between producer's prices and wholesaler's prices and for rural/urban differentials when the price data related exclusively to the urban areas".[3] This shows that there are some subjective elements in the price base used for valuation of livestock products, because empirical data on either trade margins or urban/rural price differential are meagre. The output estimates in this sector, however, are themselves weak and consequently the price base here cannot be regarded as inferior to the quantity base.

The other sector estimates, which depend on independent price data, are forestry, fishery and mining. Here, too, the position is far from satisfactory except in mining. In forestry, "data on wholesale prices at assembling centres inclusive of trade and transport margins . . . are . . , adjusted downwards to make them approximate producer's prices. Information on the minor products is generally given in value terms only, and represents the royalty amounts or the contract fees realised by government rather than the economic value of these products. The reported figures are . . . adjusted to arrive at their economic value".[4] Since direct evaluation of the major products leads to an estimate four times that of reported value, the reported value of minor product is also scaled up by this factor. One cannot say that the valuation basis of minor product is weak, because here no quantity estimates exist. But the price counterpart of the value of major product is essentially weaker than the quantity counterpart. Little is known about the extent and suitability of the price data used for evaluating the catch of marine and inland fish. The price is supposed to be that accruing to producers. But it is almost certain that price base here is weaker than the quantity base, which itself is far from satisfactory. The position is much better in mining. Previously, the Geological Survey of India used to supply mineral statistics. The Indian Bureau of Mines now prepares estimates of both quantity and value of minerals, and pit-head prices are used for evaluation purposes. This is conceptually satisfactory, and the price base here is co-terminous with the volume base, the price data being collected from all the mines supplying information on quantities.

For sectors in which the contributions to national income is based on the accounts of annual transactions, it can

be asserted that little difference exists between the volume and accuracy of the price and quantity information. In the manufacturing industries sector, for example, the current estimates are based on 'census of manufacture' type of information, in which the enterprises directly report the quantity and value of commodities transacted during the year, and average prices can be derived indirectly. For the estimates at current prices the price base here is, therefore, as wide as the quantity base. Difficulties, crop up, however, when an atempt is made to obtain a series giving real movements, because prices obtained in the manner described change over time in view of the change in the 'mix' by which quantity and value figures are reported and are not related to exact specifications of particular goods. This makes both volume and price index numbers shaky. A separate volume index number of industrial production is available in India; but this is not based on census type of data, except for determining base period weights of different components. The problem, therefore, has some importance and needs further investigation. Some difficulty is encountered again when an attempt is made to obtain the volume series using a double deflation method, because the cost is less itemised than the output.

Estimates in the sectors — railways, communications, banks and insurance, and government administrative service — also depend on regular annual operational data. Of these, for railways and communications, the quality of volume and value information should be on par for purposes of obtaining estimates of added values at current prices, and a comprehensive volume index number can be used for measuring the real changes. But in the other two sectors, the value information is better than the volume information, and the weakness of price information springs from the weakness in the volume information. The problem in these sectors is how best to define the outputs. This remains as much an international problem as an Indian problem, and we do not propose to pursue the matter in this paper.

The remaining sectors — small industrial enterprises, trade and non-railway transport, professions and liberal arts, domestic service and house property — depend on inadequate current data and it is hazardous to speculate here on the relative strengths of the 'price' and 'volume' information. It may be pointed out that in many, but in not all, cases the quantity counterpart can be taken as the labour force or some other indicator of output and we can think of the average earnings or average output per worker as the 'price' counterpart. In some of these sectors, we have more current data on rates of earning per worker or per piece of asset than on the movement from year to year in the number of workers, number of piece of assets, etc. In some others, the earnings and output information is comparable; but in many, both earnings and output information is extremely unsatisfactory. Except for a few categories of workers (e g, teachers) and some enterprises organised on a corporate basis (e g, organised trading), we have very little direct annual information on the changes in volumes involved. Thus, for many of the sectors, the price base is weak in the absence of annual repetitive information on average earnings and the volume base is weak because it depends frequently on interpolated or extrapolated magnitudes or movements of production of some commodities — which are supposed to be important outputs or inputs of some specified industrial categories belonging to these sectors.

In the revised series (RE), the National Sample Survey (NSS) furnishes benchmark estimates of average earnings in genuine household industrial enterprises for 1958-59, and labour force estimates for these industries as well as for other 'non-household' industries outside the scope of large-scale factory industries are obtained from the population census. With some adjustments, these supply a base for 1960-61 by seven industrial categories. The added value in these industry-groups is then carried forward, to the extent possible, by annually available data on certain key outputs or inputs in physical terms, giving the added values in the current period at base period prices. Estimates at constant prices are obtained from these by adjusting for price changes, "estimated from the Economic Adviser's wholesale price indices for relevant commodities".[5] The benchmark estimate is based on a nationwide survey and may be taken as reasonably good. Consequently, the reliability of estimates at current prices for any year depends on the accuracy of the data on production and price indicators. Though production indicators, in many cases, are far from satisfactory, they have, with some exceptions, much wider coverage than the few price quotations culled from the Economic Adviser's index. It may be pointed out that the revised estimate for construction is based on a different procedure. Here, the value of construction every year is first estimated using commodity flow and expenditure data depending on sectors, and then a uniform ratio is used, every year, to obtain the gross added value. These estimates are obviously at current prices, and the real series is obtained by deflating by the wage rate of rural skilled labour. The volume and price information for getting the estimates at current prices are thus of comparable extent and reliability; but the deflation procedure appears to be weak.

For some transport services in RE — for example, the public mechanised road transport — the estimates of added value at current prices are based on annual operational data on expenditures, and these sectors do not need further probing. But there are several exceptions. For private mechanised road transport, an income approach is used — the number in the labour force supplying the 'volume' indicator, and the average incomes in public mechanised transport supplying the 'price' indicator. It is difficult to pronounce on the relative reliability of the two indicators. For non-mechanised road transport, a benchmark for 1959-60 is provided by a nationwide survey (NSS), but the volume indicator for carrying forward the estimates is the combined index of agricultural and industrial production which is not directly linked with the sector output. The 'price' index for obtaining the series at current prices is the average earnings in State Road Transport Corporations; this is also not strictly applicable, though it is better than the volume indicator.

Income of corporate trading in RE is based on income-tax returns, and it has a large coverage though it suffers from the usual defects of income-tax statistics. The benchmark of average earnings in non-corporate trading is based on nationwide surveys (NSS) and the number of workers is based on population census. The benchmark estimate of added value is carried forward by a comprehensive indicator of real marketed surplus, obtained from the estimates of sectoral outputs at constant prices and certain unvarying proportions giving marketed surplus. The estimates of real added value, thus obtained, are reconverted to current prices by using the Economic Adviser's wholesale price index number. There is probably more uncertainty about the estimates of volume in this case because of the use of unchanging marketed surplus ratios, than there is uncertainty about the price indicator which could

be fairly reliable at the aggregate level. Being based on a nationwide sample survey, the benchmark estimates of average earnings should also be fairly reliable.

The contribution to gross national output by urban house property is based on the estimated number of dwellings and gross rental per dwelling. The numbers are interpolated and extrapolated on the basis of census data and average rentals are collected every year from a small non-random sample of municipalities. A similar procedure is employed for the rural estimates as well. But here a benchmark estimate of average rental per house is prepared first, on the basis of fairly extensive data on rentals per person. This average is then adjusted to yield annual figures by changes in rentals in smaller (urban) municipalities and then multiplied by the number of house. The production base thus suffers from the fact that the number of houses in a particular year is based on interpolation or extrapolation. The estimates at constant prices are affected by this, because the base period added value is carried forward by this volume indicator to obtain the real series. The price base for urban areas is stronger, though the coverage of municipalities is not large; the rural price base is considerably weaker, particularly for purposes of measuring change.

For many other services, the basic procedure is first to obtain the estimates of labour force in 1960-61 from the census. These estimates are then moved forward by census growth rates in some sectors and annual operational data for education, health and sanitary services. The benchmark estimates of average earning are obtained from a nationwide survey (NSS) relating to 1963-64. These averages are then moved forward and backward, by making use of index numbers of average earnings of a few category of workers for which annual data exist, consumer price index number, etc. For some category of workers, the benchmark estimates of average earnings are adjusted by the annual data on earnings of the *same* category of workers; but for many categories, this is not possible and benchmark estimates are adjusted by annual changes in earnings of some *other* category of workers. The procedure so far gives us the added values at current prices, after some manipulation for strict netting. The estimates in real terms are obtained, by adjusting the estimates for 1960-61 by some physical indicators of output whenever suitable indicators could be devised, or by labour force in the absence of any other suitable indicator. Except for some sectors, in which annual data of workers involved and average earning are available, there is little to choose between the volume and price base of these estimates. On the other hand, for sectors such as education and health services, the volume and price base are both reasonably satisfactory.

To sum up, we can classify the sectors according as (i) the quantity base is stronger than the price base, (ii) the quantity and the price bases are equally sound, (iii) the price base is stronger than the quantity base and (iv) both quantity and price bases are weak. Category (ii) sectors are the most satisfactory ones. Nor need we probably worry very much about price base of the category (iii) sectors for the present; more attention is needed here to put the volume information on a sound footing. Category (i) sectors cover an enormous share in NDP in India, and weakness of price estimates is a serious shortcoming here and it has to be rectified for improving national income estimates in India. Finally, it is necessary to improve both volume and 'price' base of various services constituting category (iv) sectors, which also cover a fair share of the Indian NDP.

We have not discussed the price base for cost items so far. The position here is unsatisfactory, and the only sector in which a full double deflation method has been applied experimentally in India is the large-scale manufacturing industries. Partial double deflation, however, is used for some cost items in agriculture such as seed, chemical fertilisers, etc. Some items of cost in other sectors can be broken down into quantity and price counterparts and relevant prices can be used for evaluation purposes, but such items do not cover a sizeable share of the overall cost ratios in most sectors.

It is possible to furnish some additional evidence suggesting the relative unreliability of the price base of the Indian *conventional estimates*. We present some interesting findings below without going into the supporting evidences.[6] Relative levels of dependability of price and quantity elements would have some reflection on the reliability of the sectoral national income deflators. It is possible to compute separate national income deflators for four major components of net output in India, 'A': agriculture, 'M': mining and manufacturing, 'T': trade and commerce and 'S': other services. In the conventional series, 'A' and 'M' deflators show fairly large rise during the post-Independence period and show movements similar to those depicted by the two all-India price index numbers, the wholesale price index number, and the all-India consumer price index number. The 'T' and 'S' deflator, on the other hand, show a far smaller rise. When there is a sizeable rise in the price level of the commodity production in the country, one could reasonably expect some increase in the price level of services also. In fact, in the revised series, available from 1960-61 onwards, the price of services also show a rising trend, though the rate of increase is lower than that of the price of goods. We have observed earlier that price information is relatively less reliable in India than the quantity information and the difficulty of the conventional deflators may arise partly out of the weakness of the price base of the service items. But the uncertainty in the volume information in the service sectors is also an important contributory factor. By and large, however, the volume estimate of the aggregate Indian national product can be regarded as more reliable than its price component, and the real rate of growth depicted by the conventional estimates (and corroborated by the revised estimates) appears to be plausible while the rate of growth shown by the conventional estimates at current prices remains suspect, and should be higher.

III
Basis of Valuation of Distributions Other Than One by Industrial Origin

A fair amount of research material is available in India on distributions by size, by final expenditures, and by geographical areas. The size distribution of personal income and consumption expenditure, the distribution of final expenditures and the regional distributions of added values, and final expenditures, can be completely or largely broken down into quantity and price elements; it is pertinent to examine the price and quantity base of these estimates in India. We shall consider the case of distribution by size first, the distribution by final expenditure categories next, and distribution by regions last. Since personal income equals consumption expenditure plus savings, and since the share of savings in personal income is small, a size distribution of personal income can be approximated by a size distribution of consumption expenditure. We have adopted this course, and consequently our discussion on the first two topics partly overlap.

Any ordinal group of households in

TABLE 5: NUMBER OF PRICE OBSERVATIONS USED FOR CEREALS AND MILK AND MILK PRODUCTS : CSO ESTIMATES OF VALUE OF OUTPUT AND NSS 18TH ROUND ESTIMATES OF CONSUMPTION EXPENDITURE

Items	Net Output (CSO)	Consumption (NSS)		
		Rural	Urban	Total
Rice	1812	18189	3609	21798
Wheat	1056	9180	2725	11905
Jowar	732	3557	514	4071
Bajra	396	1840	—	1840
Maize	600	2348	131	2479
Barley	348	1743	124	1867
Ragi	252	1725	94	1819
Milk	173	11187	2986	14173
Ghee	207	5519	1439	6958
Dahi	71	4209	1023	5232

Note : For all cereals except rice, the consumption expenditure data relate to the 'flours' obtained from the cereals.

a size distribution of consumption expenditure will have an associated price vector and a quantity vector. Such groups are usually formed by ranking the households by their per capita consumption expenditures — the lowest 10 per cent group, for example, representing the poorest 10 per cent of the population. The survey data for the ordinal group will give information on the value and quantity of purchases by listed items, and the average prices can be worked out by dividing the values by quantities. Consequently, it will be possible to compare a particular ordinal group at time t_1 with another ordinal group at time t_2 (or an ordinal group in State s_1 with another ordinal group in State s_2). Given the budget patterns of two groups to be compared, and the price relative for all items of consumption, it is possible by averaging the price relatives to express the purchasing power of the currency relevant for one group in terms of that for the other group. This will permit comparison of real consumption between the two groups. To compare two size distributions, we compare the lowest decile in time t_1 with the lowest decile in time t_2, the next higher decile in time t_1, with that in time t_2, and so on. In other words, we work out price index numbers separately for the different ordinal groups, and, given two size distributions at current prices at times t_1 and t_2, we adjust the size distribution at time t_2 by these index numbers, giving a distribution in time t_2 at prices of time t_1. Several such studies have been undertaken in India on the basis of NSS data.[7]

The price base of an estimate of private consumption expenditure would depend on how it is estimated. When the estimates are obtained by a product flow approach, the price base of the consumption expenditure estimate must be necessarily weaker than the price base of the parent output estimates — because the distributive margins, etc, added to the value of output at producer's prices frequently have a very weak objective basis. In India, one cannot obtain estimates of private consumption expenditure from retail sales data, because such data hardly exist. But, if available, such estimates would have a better price base than the commodity flow estimates. The estimates of consumption expenditure in India are generally obtained by blowing up the National Sample Survey data on per capita household consumption expenditure available by rural and urban areas. The estimates are based on a representative sample of the Indian population, and all the rounds of the NSS furnish this information.[8] Here, the sample size is large for recent rounds; some 26,000 households were surveyed to obtain the estimates for 1963-64 (18th round, February 1963 to January 1964). This figure compares favourably with the number of price observations used for obtaining estimates of net outputs in India. Table 5 shows why the above statement is reasonable. As we have mentioned earlier, the prices in the context of consumption expenditure estimates do not relate to specified qualities of products. But at least for the items covered by Table 5, the price base in the NSS appears to be considerably larger than the price base used for obtaining the value of output.

The price base of capital formation estimates in India may now be considered. The available Indian estimates are based largely on a product flow method for the private sector and on an expenditure approach for the public sector. Insofar as the public sector is concerned, since the estimates here are based on current operational data on expenditure, it may be presumed that the price and quantity bases are of comparable bulk and reliability. It is almost impossible, however, to work out a commodity-wise separation of the volume and price elements here, because the accounting data do not give the necessary details. The product flow estimates for the private sector suffer from the usual difficulty associated with all such estimates. When the commodities used for capital formation are picked up at the production stage, the estimates of the price and quantity components are fairly reliable, because bulk of the capital formation is based on products originating in large-scale industries or out of imported products and Indian data in either case are adequate and reliable. But data on trade and transport margins and on installation charges are inadequate, and hence the ultimate costs which result from these mark-ups become partly subjective in character. Consequently, the quantity information implicit in capital formation estimates probably remains more reliable than the price information. This is borne out by the fact that crude price index numbers based on a small number of quotations of goods used for capital formation are culled from the Economic Adviser's wholesale price index number for deflating different components of capital formation. We may, however, point out that even the quantity information becomes less reliable when we consider separately the two major components of capital formation, by public and private sectors, because the allocation ratios used to obtain the private utilisation of capital goods cannot possibly be exact. This affects the reliability of the quantity information in the aggregate capital formation also, in view of the fact that the quantity counterpart of public capital formation remains somewhat uncertain. Insofar as the service component of private construction is concerned, little data exist, it is therefore not meaningful to try to access the relative quality of its volume and price counterparts.

The section may now be completed with a brief consideration of the regional distribution of national product. When data are based on complete information, regional and national estimates of both quantities and prices could be equally reliable. Indian data on crop area or larger manufacturing establishments are based on complete count; but even in reasonably good sectors like agriculture and factory establishments, data on agricultural yield rates and smaller manufacturing units included in factory establishments are based on sample surveys. Since reliability of an estimate depends principally on the size of the sample, it follows that precise national data, in general, imply imprecise regional data and to make regional estimates precise would involve making the national estimate over precise. We have not pursued this subject in detail. But what we have observed so far would suggest that, for sectors in which the income estimates depend on independent price data, regional price data should be inferior to regional data on quantities because for these sectors, price data are hardly adequate and representative even at the national level.

Even when estimates are based on a proper random sample of prices and quantities, the regional information will be less reliable than the national information. The national and regional estimates based on the same data system could be of equal reliability only when they are based on complete information as in the case of public services; large-scale industries, railways, etc. But in this case also, some arbitrariness attaches to locating an activity to a region, when the activity normally cuts across state boundaries. For service sectors in which the national estimates are themselves weak, it is needless to say that the regional estimates have to be weaker. We may, therefore, conclude that the Indian statewise estimates of domestic product are likely to be less accurate than the all India estimates, and the divergence in the levels of accuracy should be larger for the price elements than for the quantity elements. While the data base of estimates of NDP by states has to be weaker than the corresponding national data base, for reasons indicated it is not improbable that the estimators in the State Statistical Bureaus have more intimate subjective knowledge of their states than the Central estimator has for the country. Consequently, the use of judgment at the state level may improve the state estimates considerably, and the Central estimator may not use his judgment so effectively.

An examination of the distributions of national income in India other than one by industrial origin shows that, in several cases, it is possible to split up many elements of the distributions into price and quantity counterparts. Of these, the quantity counterparts are usually more reliable than the price counterparts. The position, therefore, is comparable with what we have already observed about the distribution by industrial origin.

The study of the price base of all available Indian national income distributions thus brings out several novel points. The salient point that emerges, however, is the relative weakness of the price base. Even in countries in which the income estimates are far from reliable, the price information may be weaker than the quantity information. To improve the national income estimates, to make the sectoral deflators reasonable, and to tie them up with other bodies of price information available in the country, it may be wiser then to concentrate first on the improvement of the price information in many of the sectors. Overall precision of the estimate of NDP may increase more quickly if this procedure is followed — unless, of course, it is established, on the basis of empirical studies, that the variability of price information is very much smaller than that of the quantity information.

NOTES

1 Discussion here is in terms of both the conventional and the revised national income series. The revised series is available for the period 1960-61 to 1968-69, and incorporates several improvements. The conventional series, however, is available for a longer period, 1948-49 to 1967-68.

2 See the Final Report of the National Income Committee, Government of India, 1954, p 44, and the Brochure on Revised Series on National Product for 1960-61 to 1965-66, Government of India, 1967, p 7. We shall refer to the latter publication as the Brochure.

3 Brochure, p 8.

4 Brochure, p 19.

5 Brochure, p 34.

6 Supporting evidences are given in, M Mukherjee and G S Chatterjee: "Post-Independence Growth of the Indian Economy in the Light of National Income Statistics," Sixth Conference of the Indian Association for Research in National Income and Wealth, 1968 (mimeo).

7 For example: G S Chatterjee and N Bhattacharya: "Rural-Urban Differentials in Consumer Prices and Per Capita Household Consumption in India by Levels of Living", Indian Statistical Institute, 1968 (mimeo).

8 The first two rounds of the NSS furnished estimates for rural India only.

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Higher Education: To Set the House in Order

R Rajaraman

There has been too much emphasis in India on 'liberal education' at the university level and far too much has been invested in university education at the expense of school education. That more and more of higher education should be professions-oriented, and that admissions to different institutions should be correlated to projected manpower needs, has been proposed time and again by many educationists and has been put forth in some detail in the Education Commission Reports.

What does not appear to have been adequately stressed, however, is that as a corollary to this, what is taught at the universities must also be professionally geared to create teaching and research cadres, and that admissions to universities must be regulated accordingly. The other 'professional' courses should not be given within the conventional universities but in separate technical colleges, and universities should be left to cater to 'academic' subjects. University graduates would thus be fit to be teachers and scholars, and candidates for any other profession would be more appropriately found among the professional-college graduates.

A university so organised would offer several advantages. First and foremost, being a logically compact concept it would not suffer from internal contradictions such as the existing mismatch between what is taught and what the students need. It would thus have a unified purpose and direction. There will be no misgivings about courses of study being too 'bookish' and not sufficiently 'relevant'. And a university so organised and pruned could become relatively free of bureaucratic controls and procedures. In fact, even the other reforms, in examination and teaching methods, curricula, etc, are secondary, though extremely important, in that they cannot succeed in today's chaotic and confused university.

HAVING grown enormously in both size and numbers from its old 'Ivory Tower' days without any corresponding re-definition of its concept or aims, today's University has become distinctly schizophrenic. On the one hand it continues to have pretensions to being a centre of academic excellence dedicated to scholarship — and it does contain a few excellent scholars who are constantly trying to raise academic standards around them. On the other hand, the vast majority of students are at the university for a totally different and non-academic reason, *viz*, for the coveted 'degrees'. The students are hardly to blame for this, given the emphasis placed by a tight employment market on paper qualifications, and the undue social prestige (not to mention enhancement of matrimonial eligibility) accorded to these. By the same token it is hardly surprising that the average student is also more interested in the mechanics of getting his degree — i e, in the examinations, the question papers, the passing marks, the admission standards, etc — rather than in the quality of his education *per se*, which he considers a matter of secondary and often annoying importance. Such an attitude is increasingly, *albeit* tacitly, adopted by many teachers as well. In any case, the nature of the attempted education is such that it would be of very little direct use in the future professions of most students.

Although the B A (Pass) course is the worst offender in this exercise in irrelevance, the syndrome has crept well into most advanced courses at the best of institutions. To give an extreme example, in the Physics Department of the Delhi University, which is one of the premier centres for physics education in the country, an alarming fraction of students who are registered for their Ph D research confess to just marginal interest in the subject and to their being there for other secondary reasons. A similar situation, no doubt, prevails in most 'centres of advanced study'. Also, if such lack of purpose can exist at the Ph D level of erudite subjects and at leading institutions, one can well imagine the situation for the M A, M Sc, and Honours courses, in a typical college — not to mention the B A course. It is not surprising that the university has evolved into a vast political complex, of seething students, labyrinthine corridors of bureaucracy, and intrigue-ridden faculties. The energies of the university leadership are thus taken up mostly by legal, administrative, and disciplinary problems. Academic decisions have, by necessity, to take the backseat and are often made by default, if not on short-term administrative expediency. Even the success or failure of vice-chancellors is judged largely by their ability to keep peace with student- and teacher-power groups rather than by their efforts to improve academic standards.

Yet, amidst all this, the universities do try to maintain their self-image as institutions dedicated to academic excellence and lament the deterioration of standards. In trying, schizophrenically, to cater to these conflicting facets of their personality, they succeed neither in making conditions congenial to 'excellence', nor in facing squarely the fact that the needs of most students are not academic.

Unless these contradictions in the universities are understood and removed, it will be impossible to bring order into higher education. Changing vice-chancellors, enforcing structural changes, and keeping pressure groups under control, can make only a marginal impact.

Several suggestions have been put forward to make higher education more purposeful. In particular, it has been widely suggested that more and more students should be channelled into professional courses. This is, undoubtedly, a fundamental and long overdue reform. It will reduce the hiatus between what the educational institutions attempt to do and what the students and the country really need. Indeed, the professional colleges that already exist perform a far more meaningful function than the all-purpose 'Arts and Sciences' colleges. It is, therefore, no accident that they are less trouble-ridden or plagued by 'deterioration of standards'.

If the higher education of most students should be professions-oriented, what is to be the specific role of purely academic education in the country? By 'purely academic subjects' we mean disciplines such as mathematics, the pure sciences, literature, the languages, the arts, the more fundamental aspects of the social sciences etc, where the

choice of subject matter and the methodology of study are based only on the demands of the discipline and not on immediate applicability. This is as distinct from, say, medicine, engineering, or agricultural sciences — the usefulness of all of which to society is well defined. By contrast, the relevance of higher *academic* education and research is being questioned more and more, even by many scholars. There is considerable self-doubt among the more sensitive segment of our academicians about the usefulness of their work. Living as they do in a country where academic research and scholarship seem insignificant as compared to the 'real' problems of poverty and injustice, many introspective scholars face an 'identity crisis' which neither helps scholarship nor solves the country's problems.

Therefore, while it is important that most youngsters currently at the universities should instead go in for some professional training, it is equally important to reiterate the role of higher *academic* education, in order that conventional universities can regain their own sense of purpose and usefulness. That there should be *some* institutions providing such higher academic education hardly requires elaboration. But, what is the magnitude of demand for the products of such an education? Who, and how many, are the students to whom it should be imparted? How are they to be gainfully employed later? How many institutions imparting purely academic education (conventional universities) do we need? Can these institutions afford to complicate their structure by including a fair share of professional courses as well, or are the latter best provided in a separate place?

A discussion of these questions forms the central theme of this article. To start with, it is easy enough to identify that sector of the working population to whom academic education *is* useful, *viz*, the academic cadre. In this cadre, we include all teachers in the generalised sense — starting from primary school all the way through high school, college, and university teachers — and those pursuing research at the most rarefied levels. It is important to recognise these as a single breed of men with similar aptitudes. Every member of this cadre, unlike the typical university student of today, really requires at least a few years of higher education in academic subjects. Such training, far from being irrelevant, is a professional prerequisite for him. Even a primary school teacher could use a good Honours level education, supplemented by special courses in child psychology and behavioural methods. Middle and high school teachers may go upto a Master's level. The type of courses a school teacher needs are not, and should not be, less than the best that the university can provide. When prospective school teachers are shunted off to 'teacher training colleges', as distinct from centres of excellence, it hurts the status and the standards of school teaching. The school teacher, typically, should be the average graduate at, say, the Master's level at the best of universities. From the same student body, the upper stratum (ability-wise) exhibiting a flair for research could be encouraged to proceed for Ph D work, after which they could be reabsorbed into the universities and research institutes as teachers and researchers. (Some of them could also go to professional institutes and teach academic subjects related to the professional courses, as for instance, economists do at the IITs.)

The academic cadre, then, is a self-contained sector, which can provide its own training. In addition, it educates all school children at one end of its spectrum and pursues advanced scholarship at the other. Like many other cadres, it has a typically pyramidal structure, with school teachers forming the broad base on whose shoulders stands the university community.

It is crucial to emphasise this very important role of higher academic education — *viz*, the production of school teachers. Universities have traditionally been given the role of maintaining a core of eminent scholars who keep the country on the academic forefront. While the long-range value of this is immeasurable, there is dire need in the present social context to recognise a more tangible and immediate contribution. Training of good quality school teachers provides this. Most non-trivial professions require a good high school education, which, unlike university education, *is* a birthright. And schools essentially teach 'academic' subjects, which form the basis of all other training, however applied. Accordingly, prospective school teachers must be well trained not only in academic subjects but also in *academic values* and *methodology* — clearly the role of university education. Therefore, the production of the nation's school teachers should be considered a legitimate, logical, massive and socially *relevant* function of universities, justifying by itself their public funding.

Proceeding further along these lines, not only is the academic cadre, as defined above, an appropriate recipient of university education, it should also be the only one. Higher *academic* education should be provided *only* to those who aspire to the academic profession — either as school teachers, or if they are exceptionally bright, as university teachers and researchers. This is not an elitist posture. The restriction is based not only on grounds of caste, creed, sex, or economic background, but on aptitude and desire for the academic profession. Nobody objects to the fact that medical colleges cater to prospective doctors only and that engineering colleges cater to prospective engineers only. Nor would anyone go in for advanced sitar lessons unless he intended to play the instrument seriously. Yet, advanced academic education, after 11 years already spent in the schools on academic subjects, is considered somehow 'all-purpose', and a birthright for anyone who can afford it.

One reason for this is the overwhelming impression that any respectworthy citizen must have a college degree. This feeling, shared both by people striving to join the white-collar set on the one hand, and by the most sophisticated of families on the other, is derived from the colonial notion that a 'well-rounded gentlemen' has the benefit of a 'liberal college education'. Even in the US, which can perhaps afford such luxury, the usefulness of an 'Arts and Sciences' education on such a large scale is being questioned (see for instance the Carnegie Commission Report on US Higher Education). In India, the case against it is much stronger. Although, after even the most indifferent college education, a student does usually manage to pick up a little in terms of of general awareness, such 'development of personality' is not enough, in a poor country, to warrant 3 to 5 years of his time, his teachers' time, the expenses involved, and last but not least the damage done to the few students genuinely seeking advanced academic training. Once the 11 years of schooling have provided him with access to a wide range of subjects, the student in the Indian context should consider himself well-rounded enough to concentrate then onwards on purely professional training. (Availability of a good school education to all is, as will be seen below, an integral part of the ideas presented here.)

The other reason given for massive university admissions is the unemployment scene. "If we don't admit them into colleges, where else can they go?", one is asked. This is indeed a negative line of reasoning. No one can minimise

the agony of the millions of young men without any prospects of employment. However, shunting them off to colleges does not solve the employment problem. While every individual wants a college degree to gain some advantage over his competitors, as more and more of them do gain the degrees the advantage diminishes. The number of jobs (except among college teachers) certainly does not increase because of this exercise, but the cost to society and the academic profession is enormous. In distorting a very legitimate cry for employment for everyone into a not-so-legitimate demand for university education, our society and its political leadership are not doing the unemployed youth any favour; in fact, they are merely distracting attention from the acuteness of the real problem. Instead of agitating directly before the political leadership for more jobs, the youth agitates in front of universities for admission, and after that for lowering academic standards so that he might get his degree. As a result, he wastes years of his youth and a lot of money, learns hardly any new skills, and finds at the end that his employment prospects are still not rosy, thanks to the fact that so many other young men have also obtained the same degree. Given the tragic unemployment scene, therefore, this step only adds to tragedy.

To the extent that school graduates, unable to find employment have to be given 'something to do', it is far better to train them directly in some professional field than to send them to universities. Such a training may still not guarantee them jobs, but then neither does general university education. At least, this way they will have learnt some tangible skills while they await their jobs — which is certainly a national gain. Besides, most youngsters are likely to be much more interested in the process of learning a set of skills — once the associated social stigma is removed — than in bookish cramming. Consequently, boredom and apathy — which are principal contributors to student unrest — are likely to be less prevalent. In fact, if indulgence must be shown to the social craving for 'degrees', all graduates of technical institutions can be given Bachelor degrees instead of diplomas. That more and more of higher education should be professions-oriented and that admission to different institutions should be correlated to projected manpower needs, was proposed long ago by many educators and has been put forth in thoughtful and scholarly detail by Education Commission Reports. What does not appear to have been sufficiently stressed, however, is that as a corollary to this, what is taught at the universities must *also* be professionally geared, *viz*, towards the teaching and research cadres and that admissions to the university have to be regulated accordingly.

Thus 'professional' courses should not be given within the conventional universities, but in separate technical colleges. It would be best for universities to be left to cater to only 'academic' subjects. The nursing of high levels of scholarship requires a delicate and sensitive touch. The boorish procedural methods and Kafkaesque bureaucracy in the universities today are sufficient to dampen imaginative work by all but a few resilient scholars. Remedying this and the other evils that beset universities will be hard enough if they deal with just academic subjects. To expand them and include a variety of professional courses, is to ask for continued bad standards and lack of direction. Present-day universities, which include such diverse departments as medical colleges and law colleges, hardly benefit from such a marriage except to gain greater glory of the university as an empire. The instruction and pursuit of the 30-odd 'academic' disciplines is sufficient to warrant a whole autonomous institution. By the same count, it should be made abundantly clear to students, parents, and employers, that university graduates are only fit to be teachers and scholars and that, for any other profession, more useful candidates may be found from appropriate professional-college graduates.

A university so organised offers several advantages. First and foremost, it is a logically compact concept and does not suffer from internal contradictions such as the existing mismatch between what is taught and what the students need. It would thus have a unified purpose and direction. There will be no misgivings about courses of study being too 'bookish' and not sufficiently 'relevant'. Whatever choice of topics is considered currently important by the international community of scholars in any given discipline, will be precisely what is most 'relevant' to prospective teachers of schools and universities. Given that such a student body really needs to know the content of the courses for subsequent professional use and not just for passing the examinations, they are more likely to respond to reforms designed to raise academic standards and not view them merely as further hurdles in their path to 'degrees'.

It will also be shown below that the teacher-requirements of the country are such as to maintain around 10,000 prospective teachers as students of each university. This is a very comfortable number, large enough to warrant a healthy nucleus of faculty members in every discipline, but not so large as to burst at the seams. There will be no further need for the tepid B A course, which today caters mostly to students in search of degrees and forms the primary headache to administrators. The humblest of school teachers should be exposed to the same undergraduate education that the brightest future researcher is given, and consequently lower-than-the-best quality courses can be abolished.

No doubt, the many widely discussed reforms in teaching methods, examination methods, etc, will still have to be effected; but these reforms would have a real chance of success, unlike those attempted today which invariably degenerate into procedural wrangles. Finally, while a university of purely academic clientele will still have to maintain a structure of administrative and disciplinary rules, these can be considerably loosened as compared to in a university carrying hordes of disinterested students. Two very valid questions in this connection are: (a) Is the requirement of school teachers in the country large enough to warrant a sizeable student body in a large number of universities, if the latter are to take in only prospective teachers? (While the cream of the university graduates will also, in this scheme, provide university teachers and researchers, this will be a small fraction of the total number, most of whom will go to schools); (b) Will so many bright youngsters voluntarily accept school teaching as their profession from the start?

The answer to the first question is a definite 'yes'. If in another decade there will be over 65 crores of people in the country, to demand that a fifth of this population (about 13 crores) would be in school is not unduly idealistic. In a country where the life-span is still low this should be much less than the school-age population at that time. The report of the Education Commission (1964-66) has already quoted a school-going strength of nearly 7 crores. At 30 students per teacher, a conservative ratio, 13 crore students need about 4.3 million teachers. The Education Commission Report mentions a teacher strength of about 2.1 million in 1966. While the number must have increased a little by now, very roughly a deficit of nearly 2 million teachers has to be

filled in a decade, i e, about 200,000 a year. Carrying this trivial arithmetic a little further, this will mean, assuming 80 universities (around the present number), about 2,500 graduates per university per year — which, in turn, warrants a student body of over 10,000. This is an optimum number for a modern university, although it is much less than the unmanageable size of, say, Delhi University today. Further, even after the deficit of teachers is made up, more teachers will have to be produced to fulfil a reasonable rate of turnover. Even with a modest 3 per cent turnover rate, to maintain 4 million teachers, one needs 120,000 fresh teachers each year.

The viability of the plan does not depend on the precise numbers mentioned above, but only on the orders of magnitude. While one may choose to dispute any of the estimates made here, the argument that one can run a large number of decent-sized universities catering to just the teaching cadre remains valid — unless the estimates are wrong by a factor of 10 or more.

All this, and the second question raised above are intimately related to the need for a concerted effort to increase the number of schools, and to improve the salary and the working conditions of school teachers. What is needed in our schools, more than 'modern teaching methods' and better 'equipment', is a better and happier teaching staff. The salary of the school teacher has to be raised and his lost dignity restored such that the average graduate of a good university can, without unduly damaging his ego, join a school. This has to be done throughout the country and not just in the big cities, so that a far more equitable distribution of good schools is available than exists today. Improvement of school education is not just a matter of cultural refinement intended to increase the 'general awareness' of its citizens, it is a much more serious thing, which eventually pays dividends. Take for example 'Science and Technology', the importance of which to our economic development has been widely ballyhooed. This cannot be brought about merely by forming innumerable committees, opening up more research laboratories, or pouring more money into R and D as it is cryptically called in 'swinging' science administration circles. The scientific and technological development of a country relies heavily on the scientific and innovative potential of its budding scientists, and more importantly, its legions of technicians. And anyone who has tried teaching science (pure or applied) at the collegiate level knows that the scientific potential of most of his students has already been quashed at the school level. The ultimate yield of sound science education, at schools well-distributed across the country, in terms of tangible economic gains should not be underestimated. What is true of science is no doubt true of the other fields.

Opening more schools of better quality in the countryside and improving the working conditions of the teachers, will of course cost a great deal of money. How much of this is feasible is for the political leadership to decide. However, no one can accuse our country of having strained its resources excessively in the cause of school education. In fact, even within the money allotted for education, far too large a share has gone into higher education, at the expense of schools. (See "Crisis in Indian Education", Lal Bahadur Shastri Memorial Lectures by Amartya Sen, 1970.) It is about time, therefore, that more money was spent on school education, if we are to entertain notions of developing rapidly in an increasingly complex and technological world.

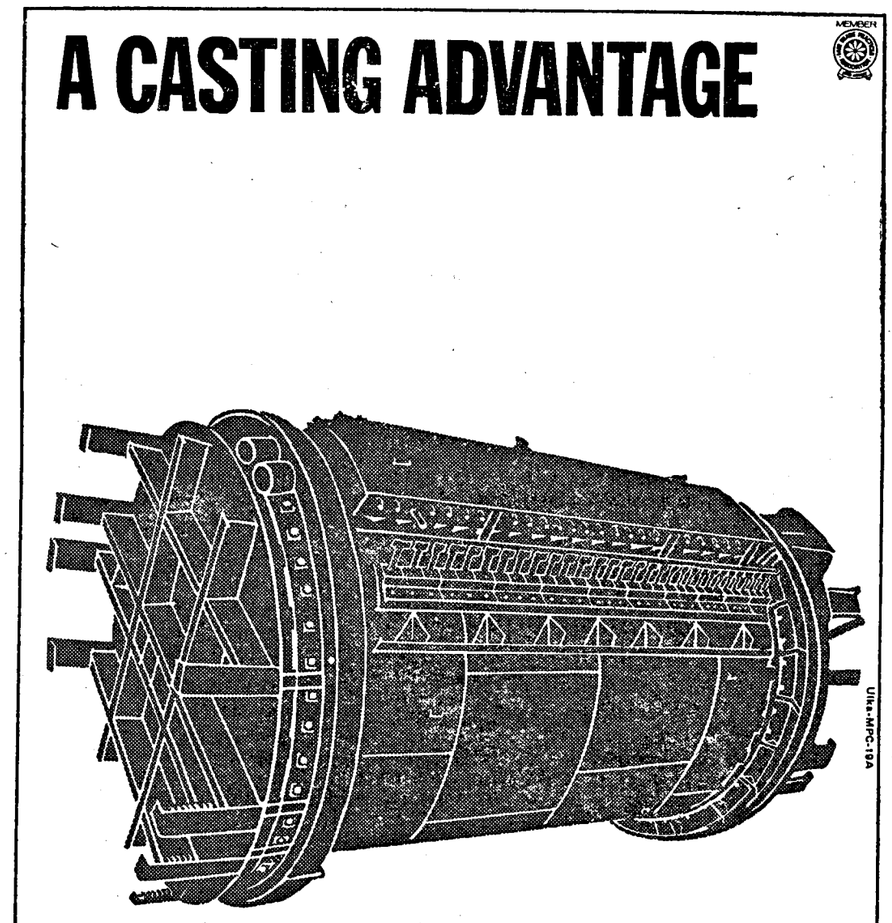
Returning to the question posed, as more and better schools come into being, with more respectable salaries for teachers, the graduates of our universities will have greater incentive to go in for school-teaching. If this incentive proves insufficient, we would be quite in favour of making it mandatory that anyone wishing to enter universities *must* teach upon graduation — whether in schools or in universities being decided strictly by merit. There is no denying that all this requires every school graduate to decide about his future profession before seeking further education. But even today medical and engineering students choose their careers right after school, and this has not hurt them any. Needless to say, some flexibility should be encouraged at every stage, permitting for example a few students who misjudged and were misplaced to switch over from one professional institute to another. It would also be worth considering an extension of school education for a year or so more. This would allow schools to provide a really sound 'general education' so that there is no further need for more of that and it would also give more time for the youngster to decide his career. But such extensions of 'general education', and the postponement of a choice of profession, cannot be carried into the university, as it is done today, without ruining the very purpose of universities.

Higher Education is a vast and complex topic, any one of whose multiple facets has already been the subject of lengthy studies, seminars, committees, and commissions. The emphasis in this article has been on 'academic' education, and, within that, on the principal malady afflicting the present day university — *viz*, an absence of direction and purpose and a distinct conflict between its professed aim and daily activity. It has been pointed out that, in linking university education with the training of school teachers, emphasising the importance of the latter, and insisting that they form, along with university professors and researchers, a single cadre, higher academic education acquires a well directed purpose. Other reforms, in examination methods, teaching methods, curricula, etc, are secondary though extremely important, and cannot really succeed in today's chaotic and confused university.

Invisible Earnings

BRITAIN and the United States earn huge surpluses from invisible trade. The two countries together dominate such earnings, accounting for over 35 per cent of the world's total invisible receipts. Britain and the US together account for almost 70 per cent of the world's income from overseas investment. Britain's invisible balance has been in surplus for every year since the Second World War — in fact, while in only eight out of 176 years has Britain had a surplus on visible trade, for the same period Britain has had a continuous surplus on its invisible account. This position is untouched by any other country. In 1970, private invisible credits were £ 4,803 mn and private invisible debits £ 3,741 mn, making a favourable balance of £ 1,062 mn. The City of London alone is conservatively estimated to have earned about £ 550 mn net in 1970 from banking, insurance, merchanting, etc. The network of overseas branches operated by British banks (about 5,000) is greater than any other (the nearest rival, the US, has about 600 overseas branches). The Euro-dollar market, now worth some $ 57,000 mn, has been largely centred in London.

The tourist industry is also one of Britain's major invisible earners; visitors spent a record £ 186 mn in Britain in the first half of 1971. Fares paid to British shipping and airlines by overseas visitors are estimated at £ 68 mn in the same period.



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Export Growth: Performance and Prospects

Angus Hone

V K Saxena

The accelerated export growth in the five years 1966-67 to 1970-71 was the result of a combination of factors: devaluation, the industrial recession which released supplies of iron and steel and engineering goods and the development and expansion of exports of certain new items.

The full danger of relying on this limited range of 'dynamic exports' has not been realised. This note suggests that, whatever the long term potential of the 'dynamic' items, their immediate growth in the rest of the Fourth Plan will be disappointing and that overall export growth in the Fourth Plan will not exceed 5 per cent per annum. Even this growth rate is likely to be reached only as a result of the disruption of the Bangladesh jute industry, the effects of which will continue to be felt until late 1973.

IT is recognised that India's accelerated export growth in the five years, 1966-67 to 1970-71, was caused by a combination of factors: devaluation, the industrial recession from 1967-1969 which released supplies of iron and steel and engineering goods that had been previously pre-empted by the growing domestic market, and the development and expansion of new items such as shrimps, gems and jewellery, and a range of handicrafts. The full danger of relying on this limited range of 'dynamic exports' has not been realised. This note suggests that, whatever the long-term potential of the dynamic items, their immediate growth from 1970-71 to 1973-74 will be disappointing and that overall export growth over the Fourth Plan will not exceed the 5 per cent compound predicted by the authors in an earlier article ('Exports in the Fourth Plan', Special Number, July 1970 p 1279). Even this growth rate is likely to be reached only as a result of the disruption of the Bangladesh jute industry in 1971, the effects of which will continue to be felt until late 1973.

The 'dynamic' products are chosen for their greater than average post-devaluation growth, but a number of smaller items such as plastics, basic chemicals, chemicals and allied products have been eliminated, because though their growth has been very fast their initial 1966-67 export base was very small at less than Rs 10 crores.

The purpose of this article is to suggest that the bulk of rapid growth in the exports field has taken place in the listed items and that capacity constraints, production problems, and bureaucratic delays, will tend to limit their growth in 1972-73 and 1973-74 — the last two years of the Plan.

The key role played the dynamic exports can be quickly grasped from the Table. From 1966-67 to 1970-71, total exports grew by Rs 378 crores, of which almost exactly Rs 300 crores came from the dynamic exports. The four-year (1966-67 - 1970-71) growth rate of all other exports was 1.5 per cent compound, while dynamic exports grew at 18 per cent compound. The situation is seen to be more serious, if hand-printed textiles, essential oils, basic chemicals, and plastic exports (totalling Rs 50-60 crores in 1970-71) are deducted from the export total. The growth of traditional primary commodities is then between 0 and 1 per cent. Without the rupee trade with Eastern Europe, there is little doubt that primary commodity export earnings would have fallen significantly in the five years after devaluation. We now analyse the individual supply and demand constraints facing each of the dynamic products over the next two years.

Fish exports offer unlimited prospects on the demand side. Japanese demand is soaring for the larger sizes (counts of less than 10). The US demand is also rising as the healthy advantages of eating slimming seafood is realised and as the US sources of seafood in the Gulf of Mexico are affected by pollution from oil wells and overfishing. These excellent prospects, and the need for a rapid and well-planned set of investment priorities for trawlers, processing plants, and improved packing, was analysed in an excellent report on "Fish and Marine Product Exports" prepared in 1970 by the Indian Institute of Foreign Trade. But delays in establishing the Marine Development Authority (which will be established through legislation to be placed before the next session of the Lok Sabha) and delays in giving permission for the import of trawlers although shrimping is 100 per cent export-oriented, have combined with the early signs of overfishing on the Kerala coasts to postpone the expansion of export earnings. The full development of the east coast fishery must now wait until the Fifth Plan and export earnings are extremely unlikely to exceed Rs 40 crores in 1973-74.

Iron ore exports will depend critically on a resumption of Japan's finished steel production from its present plateau of 80-90 million tons and on the willingness of government to subsidise rapid expansion of volume to Western, and to a less extent, Eastern Europe, in competition with the high-grade Brazilian, Canadian, and West African ores. This policy would involve much lower f o b realisations as India will be forced to absorb almost all the transport cost differential if she wishes to secure long-term contracts for supply to the British, French or Dutch coastal mills. In any case, such new initiatives will take time to develop and new deliveries against long-term contracts are unlikely to be started before late 1974 even if the contracts are to be signed within the next year. Hence the level of iron ore exports is unlikely to exceed Rs 135 crores in 1973-74, although its sustained expansion after that date is possible.

Iron and steel exports played an important part in India's post-devaluation export growth, rising from Rs 23.65 crores in 1966-67 to Rs 79.23 crores in 1970-71 when they benefited from a worldwide raw material shortage and extremely high prices. The present year will show a fall, which is likely to continue up to 1973-74. World prices are likely to remain depressed as a result of the continuing excess capacity in Japan caused by quota limits on sales to the US market. India's long-term prospects depend on the possibility of expanding pig iron and semi-finished exports during the building up of the Bokaro plant. An export level of Rs 50 crores is realistic for 1973-74, given the possibilities of expanding exports of steel pipes and tubes, pipe-fittings, pig iron, and some items of semi-finished steel.

Engineering exports have grown faster than any other major category, from Rs 22.97 crores to Rs 116.47 crores in 1970-71; but the acute shortage of in-

ternationally competitive capacity in a number of key items — such as automotive ancillaries, bicycles (which are affected by the lack of any domestic production of 3-speed hubs), handtools, industrial fasteners, electronics and sewing machines, and the whole range of components — hampers attempts to expand exports. On the other hand, the lack of an adequate system of priority allocation for steel supply to engineering exporters, poor distribution, blockage of funds with the Joint Plant Committee, and the complete absence of a scheme to make alloy steels available at international prices, deter exporters from signing international contracts which involve low prices, tight delivery schedules, and penalty clauses. The procedural structure can be modified and could have a direct impact on 1972-73 and 1973-74 exports, but the failure to license sufficient export-oriented capacity in 1970 and 1971 cannot be remedied until the Fifth Plan. It should be noted also that the whole situation will worsen if the rate of growth of industrial output accelerates from 3 per cent in 1970 and 1971 to 7-8 per cent over the 1972-74 period. Many firms with only limited capacity will be forced to choose between 'high profit' domestic sales and 'marginal' export sales. They may continue their 1971-72 export level in these circumstances, but few firms are likely to expand exports aggressively. New export products can be expanded rapidly only under the umbrella of a series of Export Processing Zones, modelled on the lines of the Santa Cruz proposal of the Trade Development Authority for an Electronics Processing Zone for 100 per cent export production. This zone is likely to be cleared by the Cabinet early in 1972 and would set the precedent for a series of zones manufacturing garments, plastics, electronics, handtools, toys, decorations, jewellery, and a whole range of market-oriented products for the North American and West European markets. A series of zones, and the immediate drafting of some automatic export commitment linked to capacity expansion licensing, for different types of units: large houses, dominant units and foreign-controlled firms, are urgently required if engineering exports under the Fifth Plan are to expand their share of the Rs 100,000-crore worth engineering goods which will be moving in world trade by 1980. Even Rs 1,000 crores in 1980 would still amount to less than 1 per cent of world exports.

Leather exports, which grew from Rs 61.9 crores in 1966-67 to Rs 74.0 crores in 1970-71, were depressed in 1970-71; but they have accelerated rapidly in the first six months of 1971-72, totalling over Rs 50 crores together with footwear exports. The long-term expansion of chrome and vegetable tanned leather is limited by the availability of hides and their variable quality, but in the short-term, technical and design problems and capacity constraints will delay export expansion in footwear, sports and garment leathers, and leather goods. Exports in 1973-74 are likely to be between Rs 90-95 crores, but rapid action to encourage and license new capacity in 'growth areas' such as ladies footwear, footballs, leather garments, and handbags, would enable the Rs 95-crore target to be reached, although footwear is excluded from the Ministry's leather figures and around Rs 8-10 crores would have to be added if leather and canvas footwear were included.

TABLE : EXPORT PERFORMANCE, 1966-67 TO 1970-71, WITH ESTIMATES FOR 1971-72 AND 1973-74

(Rs Crores)

Total Exports	1966-67	1970-71	1971-72	1973-74
'Dynamic' Exports	1156.5	1535.2	1632	1730
1 Fish	17.5	31.3	34.0	40.0
2 Iron ore	70.2	117.3	120.0	135.0
3 Iron and steel	23.7	79.2	60.0	50.0
4 Engineering products*	23.0	116.5	130.0	180.0
5 Leather**	61.9	74.0	79.5	84.0
6 Handicrafts †	38.6	69.9	75.0	90.0
7 Residual exports + re-exports	52.9	97.9	95.0	110.0
Sub-total (1-7)	287.8	586.1	603.5	689.0
Percentage of total exports	25	38	38	40
Growth rate (per cent)		100	2	16

Notes: All figures are rounded.

* We have followed the Ministry's convention in defining 'Engineering goods'. This means that the Engineering Export Promotion Council's inclusion of certain iron and steel and aluminium items in the total is not followed.

** 'Leather' excludes footwear.

† 'Handicrafts' excludes hand-printed textiles and imitation jewellery (Rs 10-12 crores).

Source: Statistics published by Office of the Economic Adviser, Export Planning Section, Ministry of Foreign Trade, New Delhi, 1971.

The growth of 'residual exports and re-exports' has averaged 15 per cent but there is little hope of such rapid growth in future years. First, Rs 7 crores of the 1970-71 figure of Rs 97.87 crores were from the re-export of two ships and one aircraft. Second, a number of the items are suffering from capacity problems or from synthetics competition: Psyllium Husk (Rs 2.54 crores), Crushed Bones (Rs 4.30 crores), Bristles (Rs 0.5 crore), Palm Fibre (Rs 2.24 crores), Aluminium (Rs 1.02 crores) and Human Hair (Rs 1.15 crores) are obvious examples. The real growth items are: opium, doubling in two years from 1968-69 earning of Rs 4.33 crores to Rs 8.62 crores in 1970-71; guar flour, up from Rs 1.02 crores to Rs 5.41 crores; and feature films, up from Rs 1.98 crores to Rs 5.31 crores. These can hardly be expected to continue to grow at their previous rates — feature films alone *may* do exceptionally well with

Handicraft exports, which exclude hand-printed textiles and imitation jewellery, have grown from Rs 38.64 in 1966-67 to Rs 69.86 in 1970-71; and they are likely to increase to over Rs 90 crores in 1973-74, if supplies of raw gems continue to be imported satisfactorily. The 1971-72 gem export will be around Rs 40 crores and it could easily rise to Rs 50 crores at the end of the Fourth Plan. The residual handicrafts can expand from Rs 35 to Rs 40 crores. There is a clear case for expanding the cash assistance to the handicraft sector. The sector employs a large number of very poor workers and requires almost no foreign exchange inputs. The domestic resource cost of earning an additional dollar is very low. Cash assistance, at 5 per cent of the f o b value, would certainly help to expand carpet, woodware, and some minor exports, and it is these items which have suffered marketing difficulties in the two years.

enormous export prospects in Bangladesh. Overall, the growth prospect for residuals are 5 per cent and this is confirmed by comparing the first six months of 1970-71 with the first six months of the current year. The likely 1973-74 outturn is Rs 108-110 crores.

The likely export earning in 1973-74 from the seven dynamic product groups, is Rs 690-700 crores: a growth of Rs 90-100 crores from their expected 1971-72 outturn of Rs 590-600 crores. This growth rate represents a considerable slowing down from the 18 per cent compound, experienced between 1966-67 and 1970-71. The dynamic exports can no longer carry the burden of the export growth, particularly over the two years, 1972-73 and 1973-74 when they face production constraints and capacity problems. Growth after 1973-74 will depend on the industrial licensing policies adopted in 1972, and a fundamental drive to raise production and to increase export earnings from the traditional primary exports such as jute, tea, cotton, cashews, tobacco, spices and coffee. The windfall gains of high jute goods prices in 1971-72 (valued at around Rs 65 crores) will be quickly dissipated, unless there is a basic replanning of India's export promotion efforts.

Emerging Power Pattern in the Persian Gulf

M A Saleem Khan

Iran's recent occupation of three islands in the Gulf, Saudi Arabia's ambiguity about the occupation and Kuwait's lack of official reaction—despite the protests and denunciations of the shaikhdom of Ras al-Khaima and Iraq—are a reflection of the emerging power pattern.

Western interests and the national interests of the two local major conservative powers—Iran and Saudi Arabia—coincide in the Gulf. The two inter-connected basic concerns of the West, and of Iran and Saudi Arabia, are to maintain the flow of oil and to retain the conservative-feudal political systems prevalent in the area. In doing this, a 'division of work' has been agreed upon between Iran and Saudi Arabia. Iran, with its strong navy and air force, is expected to guard the waters and coasts of the Gulf and not let any 'revolutionary' movements develop in the shaikhdoms, nor allow infiltration from the south or the north. Saudi Arabia's role, with its increasing military power, political prestige and oil money, is to see that the 'revolutionary' movements on the fringe of the Arabian peninsula are reversed or localised. Kuwait is the third linchpin helping to maintain the status quo *in the vulnerable Gulf shaikhdoms.*

THE Persian Gulf, till very recently a backwater of the Arab world and Iran, is emerging as an important sub-system of international politics. The planned British military withdrawal last year and the activisation of Iranian and Gulf Arab politics during the last few years has accelerated this process. As the largest oil-producing area, containing about sixty per cent of the proven oil reserves of the world, and having mostly monarchical systems of government — ranging from primitive shaikhdoms to highly organised bureaucratic monarchies — it has become the focus of attention of both the oil-consuming *status quo* powers and the revolutionaries.

The Arab-Israeli war of 1967 caused a great setback to the high priority given to Arab nationalism by Nasser. Saudi Arabian King Faisal's contributions in support of the Egyptian economy — which has suffered the loss of dues from the Suez Canal — raised his prestige in the Arab world. The Shah of Iran, surviving many crises, had established himself by the early 1960s. Britain's deepening economic crisis had compelled it to have a hard look at its military commitments east of Suez. British Premier Wilson announced on January 16, 1968 that British forces would withdraw from the Far East as well as from the Persian Gulf by the end of 1971.[1] (The decision to withdraw from the Far East was later partly rescinded by the Conservative government, but the decision about withdrawal from the Gulf was adhered to.)

The Wilson announcement was a major event in the Gulf. Some rich shaikhdoms attempted to induce Britain to change its mind by offering to bear the expenses of the British military presence,[2] but without success. After some hurried consultations, the seven Trucial States, Bahrain and Qatar, announced on April 1, 1968 that they were going to form a confederation. The US government exerted pressure on Britain not to withdraw so hurriedly from the Gulf,[3] and President Johnson's adviser, Eugene Rostow, launched a test balloon suggesting that five 'Middle East' states — Turkey, Iran, Pakistan, Kuwait and Saudi Arabia — should take up the responsibility for regional security.[4] But the balloon burst due to strong Arab reaction.

The British Leader of the Opposition (now Prime Minister), Edward Heath, took the earliest opportunity to make a long tour of the Gulf area and wrote an article in the *Sunday Times* in which he observed that after his long private talks with the Shah and Faisal he was convinced that the Conservative government would be able to work well with these countries since "we share one common aim — the maintenance of stability".[5] The Shah from the very beginning asserted that Persian Gulf matters should concern only the littoral states. He said, "we do not intend to invite any one, either Britain, Russia or America. In fact we would like the Persian Gulf to be a closed sea".[6] The long-standing Bahrain dispute was settled amicably through the UN. The long-drawn and dispute-ridden efforts of the shaikhdoms, to form a confederation through the goading of Saudi Arabia and Kuwait on the one hand, and Britain on the other, came at last to fruition when there was only one month left for the final British withdrawal. In the process, Bahrain and Qatar, opted out of the proposed confederation and declared their independence on August 14 and September 1, 1971, respectively.[7] On December 2, 1971, the Union of Arab Emirates (UAE) consisting of Abu Dhabi, Dubai, Sharja, Ajman, Umm-al-Qaiwan and Fujaira was formed. The seventh and smallest state, Ras al-Khaima, remained aloof.[8]

The Iranian navy occupied the three strategic islands of Abu Musa and the

two Tunbs (under the control of Sharja and Ras al-Khaima respectively) at the narrow mouth of the Persian Gulf on November 30, 1971, i e, a few days before the formation of the Gulf confederation and a month before the British withdrawal. Abu Musa was occupied after an agreement with the Shaikh of Sharja[9] and the other islands despite the resistance and protest of the Shaikh of Ras al-Khaima. The Arab reaction was mild except for Iraq who instantly severed diplomatic relations both with Iran and Britain.[10] The Parliament of Kuwait passed a resolution denouncing the occupation,[11] the UAR media played it down[12] and Saudi Arabia remained ambiguous.

All these reactions were predictable in view of the situation in the Persian Gulf and the Arab world. The UAR is confronting Israel and does not want Arab attention diverted to such a small incident. The Arab League, however, held a meeting and passed some secret resolutions and asked its Secretary-General to conduct 'high-level' negotiations.[13] Iraq, under its Baathist regime, is isolated in the Arab world and has been thrown into a situation of constant friction — over the Kurds, the Shatt al-Arab dispute and other irritants — with Iran. Kuwait, small but extremely rich and replete with internal contradictions, arising *inter alia*, from the differences between its cautious shaikhly family and the radical elements in its parliament — could not stop its parliament from passing a resolution condemning the Iranian occupation. Faisal's Saudi Arabia — big brother to the Gulf shaikhdoms but also a close collaborator with Iran in maintaining 'stability' in the Gulf — did not go beyond declaring that it had failed to persuade Iran not to occupy the islands.

Interests and Problems

These varied reactions of the Arab countries reflect their interests and problems *vis-a-vis* the Gulf area. There are two major interests which most of the rulers of the states in the area and Western powers with a stake in the Gulf want to preserve: oil and the area's conservative political systems.

The oil riches of the Gulf have three dimensions. (1) The contribution of the oil income to the economy of the Gulf states is immense. It constitutes the major part of national budgets and development programmes of the Gulf states. (2) The oil is crucial for oil-consuming countries outside the Gulf, especially the Western European countries, and indirectly, for the US.[14] (3) The foreign oil-producing and refining companies make immense profits from Gulf oil.

Another consideration for the West is the balance of payments. Gulf oil is cheaper for Western Europe than oil from most other regions. The money used to purchase the oil flows back to Western Europe as it is used by the oil-producing states to buy European goods or is deposited largely in British and other Western European banks. This means that the consumption of Gulf oil by Western Europe helps to prevent a dislocation in the balance of payments of several European states.[15] Thus, the Western powers are mainly interested in the uninterrupted flow of oil, both for consumption and profit.

The maintenance of the Gulf's conservative power structures is also of interest to the West. Except for Iraq, where the 1958 coup abolished monarchy, all the states of the Gulf have monarchical systems. The national policies of many of these monarchies are directly or indirectly connected with the preservation of feudal institutions.

These conditions have given rise to an instinctive and, at times calculating, revolutionism against monarchies and their protective Western powers and oil companies. The monarchies have adopted two approaches to forestall revolution. They have launched reformist programmes and have organised their governmental machinery to track down and suppress the revolutionaries.

Each major monarchy in the area — Iran, Saudi Arabia, Kuwait — has underground revolutionary organisations operating in its territory. There is also a liberation movement active in Oman and attempting to enter the Gulf to topple the shaikhdoms. From the north, anti-monarchist Iraq is also expected to export revolution to the south. For the last few years, the conservative monarchical states in the Gulf have been trying to evolve an interacting power-pattern to control and direct developments so that no 'disruptive' revolution takes place.

The states in the Gulf are at varied stages of vulnerability to a breakthrough *coup* or liberation movement and 'security arrangements' are being made in proportion to the varying degrees of vulnerability of these states to sharp political change. These degrees of vulnerability are delineated here in terms of contours. The innermost contour line encircles the six Trucial States who have recently formed a confederation called the Union of Arab Emirates. We may also include within this contour, the northern states of Qatar and Bahrain which declared independence recently. Bahrain is the most populous state in the inner Gulf and its people relatively the most politically conscious. Qatar is sparsely populated, comparatively backward and a Wahabi dominated emirate. Amongst the Trucial States, Abu Dhabi,[16] with the largest area and oil income but a small population, along with Dubai, a small but commercially rich shaikhdom,[17] will dominate the Union. The other shaikhdoms are small and sparsely populated and have not yet struck much oil.

The Order of Vulnerability

As the population of all these eight shaikhdoms does not exceed half a million, the wealth of the richer emirates will be more than sufficient to establish a fairly successful welfare society in all of them. And given the feudal, exploitative conditions of many of the shaikhdoms, especially in the southern area, they may become an easy target for liberation movements emanating from Oman and Aden.

Oman can be placed after the Gulf shaikhdoms in order of vulnerability, though liberation movements have been active there since 1965. Now it is not that vulnerable to a revolutionary movement as it was before the British-inspired 'palace revolt' of July 24, 1970, when the British-educated Qabus ousted his antediluvian father Sultan Said bin Taimur. Oman has been virtually a British protectorate for the last two hundred years and its army is officered by British nationals. Britain has also obtained, through a 1958 agreement, rights for its air force to use the airfields of Salalah in the south and Masirah, an island in the Gulf of Oman. Britain continues to maintain these bases, though it has left the Persian Gulf.

Oman is a large but poor and sparsely populated country and is of some political significance. Oman's old Sultan never allowed his oil revenues to be used for development programmes and imposed a punitive rule on Oman's people. A liberation movement started in Dhofar — the southern province — in 1965 and has extended its objectives to the Persian Gulf and has renamed itself as the Front for the Liberation of the Occupied Arab Gulf (FLOAG). It has extended its activities to Jabal al-Akhder, a mountainous region bordering the Trucial States. There are also many other revolutionary organisations working in Oman. They are believed to be armed and trained by the Chinese and helped by the People's Republic of Southern Yemen, which is in constant conflict with Saudi Arabia. The new Sultan is attempting to crush these liberation movements. Recently Qabus visited Saudi Arabia — his first official visit to a foreign country.

Kuwait is in a unique position not only owing to its immense riches, but also as a sort of intermediary between the emirates and the bigger Gulf states. Its rulers are, on the one hand, cautious and neutral in intra-Arab conflicts and, on the other, very enthusiastic to bring about reformist changes in the Gulf shaikhdoms. Kuwait's role, along with Saudi Arabia's, in bringing about the Union of the Emirates is indicative of Kuwait's position in the Gulf.

However, Kuwait bristles with internal contradictions. More than half of its population consists of foreigners.[18] It is the only Arab country in the Gulf area which has a parliament, even though it is elected on a narrow base of "natural-born literate Kuwait males over the age of 21".[19] Most of the foreigners are from other Arab countries and include many Palestinians. There are also Iranians, Indians and Pakistanis. The ruling family is on top in the hierarchy of power and influence. Then come the old established business families of the town of Kuwait. There is some tension between these privileged old families and the newly rich. With the slow democratisation of Kuwait since the early 1960s, more and more 'commoners' are becoming associated with the government and administration. But the important posts remain in the hands of the ruling family.

In the elections for the 50-man National Assembly held in January 1971, ten leftists belonging to the Kuwait branch of the Arab Nationalist Movement (a pan-Arab organisation created by George Habash, now the leader of the guerilla group called the Popular Front for the Liberation of Palestine), headed by Ahmed al-Khatib, were elected to the Assembly. 34 seats were retained by bedouin and business representatives who, with the ruling family, control and direct the country.[20] A *coup* in this rich state which has established a welfare society is unlikely. Khatib's opposition group will help in keeping Kuwait on an even keel by gaining some progressive reforms.

The biggest Arab country in the Gulf area is Saudi Arabia, though smaller than Iraq in population. Faisal became its king in 1964 but had been the *de facto* ruler since 1962. Faisal has partly succeeded in curbing profligacy and corruption, streamlining the administration and bringing about some social transformation. But due to the slow pace of change, the younger generation seems to be discontented and in June 1969 a *coup* attempt was reported.[21] Faisal is a conservative who supported the royalist faction in the Yemeni Civil War and helped to start the series of Islamic summits. He has also, along with Kuwait's ruler, helped to form the Gulf confederation and is now helping Qabus, the ruler of Oman. His regime stands on three pillars : the large royal family, the tribal shaikhs and the Wahabi *ulema*. But the social consequences of oil production are corroding the shackles of tradition. Awe for the King, respect for the *ulema* and tribal constraints are slowly dissolving. New groups of businessmen and contractors, students and intellectuals, bureaucrats and salaried employees, professionals and workers are coming up. They may be disparate and disorganised due to the lack of political parties, trade unions and professional associations, but they are bound to seek other political outlets.

Machinery of Repression

The most important country of the Gulf is Iran. It is more powerful and populous than all the other countries of the Gulf put together. The present Shah of Iran, after passing through a period of uncertainty and chaos, launched a 'white revolution' ten years ago. He has the resources to effect basic changes in the economy and the appearance given is that he has a grip over the situation. Yet, this masterfulness is deceptive. Hidden behind the smooth facade is a machinery of repression. Parties and elections are stage-managed. There is no real opposition and expression is choked, resulting in Iranian student unrest in the country and abroad. The white revolution and its supportive propaganda will not satisfy the people, especially the students, intellectuals, professionals and politically-conscious workers, unless they are given a chance to express themselves politically.

Iran's foreign policy in the past was to blunt any threat from the Soviet Union, the proximate super power in the north. In this Iran has been successful to a large extent. More lately, Iran's foreign policy has been defined as *"de-facto* non-aligned".[22] Further, "the changing concept of security on behalf of both the Soviet Union and Iran has rendered the proximity to Soviet Russia an advantage, and alliance with the West less attractive. The Soviet desire for tranquillity on its borders in turn encouraged initiatives by Iran for a further *detente* in her relations with Russia. Once convinced of their feasibility and safety, the US could not validly oppose these developments".[23] It seems that Iran is hopeful that the Soviet Union will adopt a low posture in at least three fields of Iran's concern: Iran's friction with Iraq, the Tudeh Party's opposition to the regime and the liberation movements in the Gulf. The 'forward' policy of Iran in the Persian Gulf is meant to strengthen the position of the Shah in the country, ensure safe passage of oil tankers through the Gulf and prevent the advance of liberation movements from the southern tip of Arabia. Unless democratic political institutions are soon introduced, waiting for the completion of 'the socio-economic transformation' before introducing democracy will prove counter-productive when democracy is actually introduced.

Iran's neighbour, Iraq, is the only non-monarchical and non-conservative country in the Gulf. It is a country with a tradition of *coups*. So many *coups* and attempted *coups* have taken place in Iraq that they have become routine affairs. But so far there has been no sincere effort to bring about revolutionary change. There have been attempts, as the Iraqi government has alleged, to bring about a 'conservative' *coup* and Iran has been blamed for them. The breakthrough *coup* of 1958 against the rotten feudal-monarchical system supported by Britain was a historical step. However, it faded in its revolutionary aims for many reasons. One of them was that a unified command was not established due to the personal ambitions of Kassem and Arif who after some time fell out on the question of Iraqi merger with the newly established UAR. A conflict then started between the Arab nationalists supported by Arif and the communists patronised by Kassem. Another reason for the failure of its revolutionary aims was that pre-revolutionary Iraq had completely suppressed political development, though there had been some socio-economic development, and consequently the new regime lacked experienced political cadres.

But perhaps the most important reason for the lack of stability and absence of political development in Iraq, is that no serious attempt has been made to resolve the basic contradictions arising from the trichotomous composition of the population, i e, the Sunni and Shia Arabs and the Kurds. The Baathist regime that came to power in July 1968 has launched a massive development programme, but political development has again been ignored. No breakthrough from this political dead-

end is possible without genuine democratisation.

The present regime is isolated not only from the conservative Arab regimes but also from other 'revolutionary' regimes in Syria, UAR, Algeria and Libya. The simmering Kurdish revolt and Iran's moral and material aid to it from across the border, has severely strained relations between Iraq and Iran. Navigation rights in the Shatt al-Arab (the river forming the southern border between the two countries) are another point of friction. Nor has the problem of the demarcation of the oil-bearing continental shelf between Iran, Iraq and Kuwait been solved as yet. Added to all this, Iran's occupation of three islands in the Gulf led to a dangerous crisis in relations between Iran and Iraq. Iraq has the shortest coastline in the Gulf and this is its only outlet to the sea. Iran's occupation of the three strategic islands at the narrow mouth of the Gulf can, therefore, be interpreted not only as an attempt to prevent the infiltration of liberation movements from the south, but also as a threat to Iraq's marine navigation.

The Power Pattern

Thus with the withdrawal of the British military presence from the Persian Gulf a new power pattern is developing. A study by a panel of experts from the US and Britain, published in the US in early 1969, expressed fears that the British military withdrawal would be followed by three developments in the Gulf : Disturbances within the states disrupting "the present territorial and political forms", conflict between the states themselves arising from various claims and ambitions, and the growth of Soviet influence. It recommended that necessary modifications in the policy of withdrawal in 1971 be made through negotiation of new defence arrangements.[24] This panel headed by Bernard Lewis takes an alarmist view of the Soviet threat. It asserts that Soviet policy is imperialistic "in the conventional, traditional sense of the word, though sometimes in the guise of social revolution", and that the Soviet Union has the two essential ingredients for the growth of empire — appetite and a sense of mission. The panel talks of the traditional pattern of growth of Russian imperialism through the process of seeking the enlargement of a *cordon sanitaire*. The panel predicts that just as the defence of Moscow led the Soviet Union to Czechoslovakia, the defence of Baku might lead it to the Persian Gulf.[25]

In a statement to a subcommittee of the US Senate, Lewis also emphasised that the US should take adequate steps to protect vital Western interests in the Gulf, in the Indian Ocean and in the Mediterranean and to make clear the West's will to do so.[26] Another Western writer has also warned that if the pattern of political action of the Western powers remains unchanged in the Gulf area there will be two results: "A dangerously unstable bipolar (Iran and Saudi Arabia) international sub-system in the Persian Gulf" would develop and the Soviet Union would be tempted to make this unstable area the focal point of its Middle Eastern policy. He has emphasised that it is incumbent upon the Western powers to replace the dilapidated British security structure with a new and more credible Western security system.[27] Expressions of such fears and prognostications are common. But what the US and Britain, who have very cordial relations with Iran and Saudi Arabia, have actually done to safeguard their interests in the Gulf is not publicly known.

However, it appears that Western interests and the national interests of the two local major conservative-reformist powers coincide in the Persian Gulf. It also appears that a sort of 'division of work' has been agreed upon between Iran and Saudi Arabia. Iran, with its strong navy and air force, is expected to guard the waters and coasts of the Gulf and not let any revolutionary movement develop in the shaikhdoms, nor allow infiltration from the south or the north. Saudi Arabia's role, with its increasing military power, political prestige and oil money, is to see that the revolutionary movements on the fringe of the Arabian peninsula are reversed or localised. Kuwait is the third linchpin helping to maintain the *status quo* in the vulnerable Gulf shaikhdoms. Iran's recent occupation of the three islands, Saudi Arabia's ambiguity about this occupation and Kuwait's lack of official reaction, despite the protests and denunciations of Ras al-Khaima and Iraq, are a reflection of the emerging power structure in the Gulf.

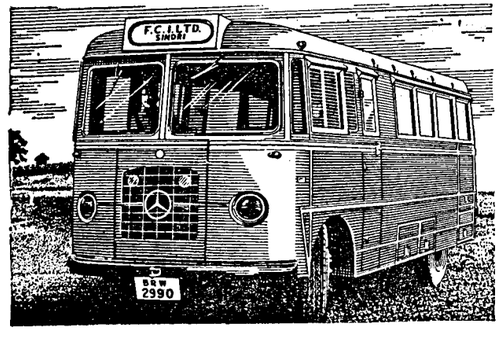
Notes

1 *Parliamentary Debates*, House of Commons, Vol 756, Col 1580.
2 See the statement of the British Under-Secretary of State for Foreign Affairs, Goronwy Roberts, *ibid*, Vol 578, Cols 368-9.
3 *The Times* (London), January 12, 1968.
4 See *Arab World* (Beirut), January 22, 1968.
5 *Sunday Times* (London), April 27, 1968.
6 *Statesman* (New Delhi), June 17, 1969.
7 *Arab World Weekly* (Beirut), September 4, 1971, p 4 and September 11, 1971, p 11.
8 *Arab World* (Beirut), December 3, 1971, p 2.
9 However, Premier Hoveida of Iran said in parliament on the same day that "the continued presence of local officials on Abu Musa would not mean a negation of Iran's sovereignty over the whole island". See *Kayhan International*, December 4, 1971, p 1.
10 *Egyptian Gazette*, December 2, 1971.
11 *Times of India*, December 2, 1971.
12 *Arab World*, December 1, 1971, p 3.
13 *Arab World*, December 8, 1971, p 3.
14 Oil's share of Britain's total energy requirements will remain more or less constant at about 40 per cent up to at least 1980. The same calculation is likely to apply to Western Europe as a whole. William Luce, "Britain's Withdrawal", *Royal United Services Institution Journal*, March 1969, reprinted in *Survival*, Vol XI, June 1969, p 189.
15 See the Centre for Strategic and International Studies, "The Gulf: Implications of British Withdrawal", Georgetown University, Washington DC, February 1969, p 9.
16 The area of Abu Dhabi is 26,000 square miles and the total area of all the other Trucial States is about 4,000 square miles. See Donald Hawley, "The Trucial States", London, 1970, pp 337-49. Saudi Arabia has recently activised its claim to Buraimi oasis, a disputed area between Saudi Arabia, Oman and Abu Dhabi. Saudi Arabia thinks that Abu Dhabi's regime is unstable and it may fall into the hands of the revolutionaries. See *Arab World*, December 28, 1971, p 8.
17 From late 1969 Dubai has also been producing oil.
18 According to the 1970 Census its total population was 733,000, out of which 387,000 were foreigners. "Middle East and North Africa", London, 1970, p 425.
19 *Ibid*, p 430.
20 See *Arab World Weekly* (Beirut), January 30, 1971, p 4.
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23 *Ibid*, p 318.
24 *The Gulf*, No 16, pp 7-13.
25 *Ibid*, p 10.
26 Bernard Lewis, "Conflict in the Middle East", *Survival*, Vol XIII, June 1971, p 197.
27 Robert R Sullivan, "The Architecture of Western Security in the Persian Gulf", *Orbis*, Vol XIV, Spring 1970, p 72.

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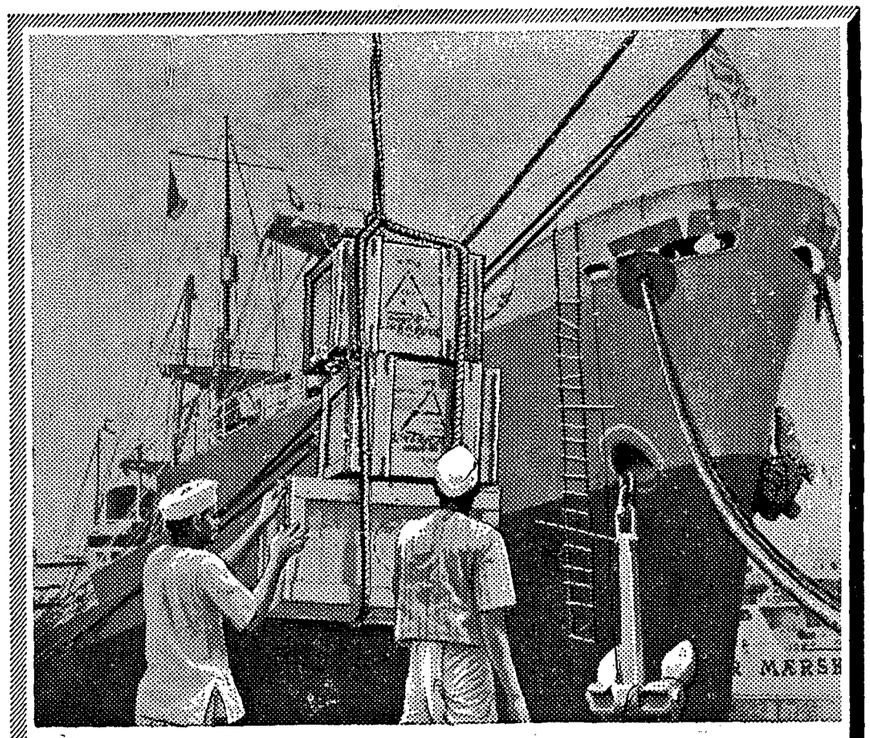
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Relearning Old Lessons

DOES the government have a policy on foreign private investment and collaboration? It was only some days back that it had announced what seemed to be fairly precise guidelines in respect of expansion of subsidiaries of foreign companies operating in India. The objective of these guidelines was to secure the progressive dilution of foreign shareholding with every expansion, by requiring a proportion of the additional capital needed for expansion to be issued to Indians in the shape of equity. These proportions have been laid down as 40 per cent, 33⅓ per cent, and 25 per cent, for companies having foreign shareholding of over 75 per cent, over 60 per cent but not exceeding 75 per cent, and over 51 per cent but not exceeding 60 per cent, respectively. This seemed to suggest some earnestness on the part of the government to 'Indianise' the foreign subsidiaries and a willingness to follow certain rules in an area where hitherto bureaucratic discretion had reigned supreme.

A totally new approach to foreign private capital was, however, in evidence in the pronouncements of official spokesmen at the meeting of the Indo-British Technological Group in New Delhi earlier this month. In his opening speech to the meeting, the Secretary to the Ministry of Industrial Development pointed out to the British members of the Group that although labour costs in India had risen in recent years, they were still substantially lower than in the industrially developed countries and that this "opens out a sphere of labour-intensive industries in which a very much closer association between our two countries can be to our mutual advantage". Whole industries, he suggested, could be shifted from Britain to India, worked here, and the requirements of the British market as well as of its foreign customers satisfied at cheaper cost. For a unit which would undertake to export the whole of its production, the government would waive its normal practice of not allowing import of plant and equipment available indigenously and, more important, of not permitting wholly-owned subsidiaries of foreign companies to be set up. In cases where the export potential was less than 100 per cent of production, the extent of permissible foreign equity could be negotiated.

The proposal is, however, neither as new nor as reasonable and attractive as official spokesmen have made out. First, the likely net export earnings of such ventures have to be carefully considered. Where considerable raw materials might have to be imported, the benefit of even 100 per cent exports might be negligible in terms of foreign exchange earned. We have the example of the Coca Cola Corporation to show how small the net export earnings of some supposedly export-based Indian operations can be. Second, where an Indian company is a subsidiary of a foreign company, the dealings between the two can hardly be expected to be strictly commercial. Among other things, the pricing of the Indian subsidiary's imports and exports is controlled by the parent organisation. In such cases it is often through price manipulation, and not so much through open dividend and royalty payments, that earnings are taken out of the country. The foreign oil companies are, of course, well known practitioners of this technique, though others, with smaller equity participation in the Indian companies, are no less adept at it — for example, when they act as export agents for the Indian companies. The argument that the operations of the Indian subsidiaries would be carefully watched by the government need not be taken seriously — not after the colossal sums that branches of foreign banks operating in India are able to repatriate home as 'head office charges' right under the Reserve Bank's nose!

There are other less obvious snags in the kind of deal proposed. While, normally, investment should be expected to stimulate demand for local equipment, the proposed transfer of whole plants from abroad (reminiscent of railways development in India in the nineteenth century) will have no such impact. And, as the example of Napco Bevel Gear showed so painfully, the prospect of high values being debited for outdated equipment is very real indeed. Nor would this kind of operation have any scope for local research and development. Typically, these would be colonial investments, with a few natives being given jobs and no other beneficial impact on the economy. And since the foreign subsidiaries' export commitments would be projected on given relative levels of wage costs, the government would presumably need to give assurances against wage increases and trade union activity and such other things. Or else, the foreign companies may well threaten to move to some haven of industrial peace like Taiwan or Singapore!

And, after all these concessions and changes of policy, what will be the total benefit to the economy? No estimates have been hazarded of the number of units likely to move in or of the net export earning from them. The UK has more than a million unemployed now and its own depressed areas.

Yet in spite of very substantial incentives, British industrial units have hardly shown themselves eager to move to these areas. Are they then any more likely to come rushing to India?

Nor does the export performance of the British subsidiaries already in this country leave room for optimism. The Secretary to the Industrial Development Ministry emphasised the need to increase the exports of these companies so that after taking into account all the outgo of foreign exchange connected with their operations, there was a substantial net foreign exchange earning to the country, adding that "by and large such a position does not appear to have been reached so far". The response of the British representatives was to ask the government to *relax* the export requirements laid down for permitting expansion of foreign subsidiaries. And, what is more, according to the press communique, the Indian side "agreed to consider these views". A far cry indeed from 100 per cent export commitments!

The discussions at the meeting of the Indo-British Technological Group should have indicated to the Indian bureaucrats and others present that woolly-headed notions of 'mutual benefit' have no place in economic relations between the industrialised countries and the poor countries of the world. Relations between members of the two groups of countries have their own logic and compulsions that do not allow for the kind of happy endings visualised by the authors of the proposal to attract to this country 100 per cent export-oriented foreign companies.

Ceylon

The Games Plutocrats Play

CEYLON finally recognised the presence of Bangladesh last week, quite some time after other countries geographically close to Bangladesh — Nepal, Burma, Malaysia, Indonesia. However, the Ceylon Government's reticence becomes quite understandable, not so much because of its having lost a united Pakistan which once served as a seeming counter-balance to India 'the neighbouring colossus', but because of its long-standing fears of a Tamil secessionist movement growing within Ceylon and becoming a serious threat to its integrity.

The recent visit of S J V Chelvanayakam — MP and founder-leader of the Federal Party which is Ceylon's main Tamil party — to India and his statements in Madras will only add to these fears. The Ceylon Tamil leader is reported to have said that his discussions with Indian leaders were useful in that they had appreciated the stand of the Federal Party. He went on to say that the Indian leaders had told him that their support of the Party's goals would amount to interference in the internal affairs of a neighbouring country, to which Chelvanayakam's reply had been that they should not, however, hesitate to extend support or at least sympathy openly when the Tamil-Sinhalese problem in the island *assumed international proportions as it was bound to*. When Chelvanayakam referred to 'Indian leaders' he probably meant DMK leaders. New Delhi is not likely to be that appreciative of the stand of the Federal Party as the DMK which has also been making noises about greater autonomy and whose leader, Karunanidhi, was quick to back the recommendations of the Rajamannar Committee which had alluded to greater power for the states *vis-a-vis* the centre. Colombo is, however, likely to be much more worried than New Delhi about the long-standing demands of the Federal Party and now also the other significant Ceylon Tamil party, the Tamil Congress, for autonomy for the two Ceylon Tamil majority provinces in the north and the east. (The Ceylon Tamils who have been on the island for centuries should not be confused with what are referred to in Ceylon as 'Indian Tamils'. The 'Indian Tamils' are more recent immigrants and are mostly tea estate labourers concentrated in the hilly areas of central Ceylon who have so far had hardly any political rapport with the Ceylon Tamils.)

What has made the demands for autonomy more serious recently is Ceylon's new constitution which is expected to come into force within the next few months. It not only concentrates greater power in the hands of the present United Front Government but particularly aggravates Ceylon Tamil susceptibilities as it rekindles the very same language issue which was the cause of extremely serious Sinhalese-Tamil riots in 1958. The direct cause of the riots was the stewardship in 1956 through parliament by the late Solomon Bandaranaike, then prime minister and husband of the present premier, of a bill making Sinhala the sole official language. Solomon Bandaranaike had largely fought and won the 1956 general election on the basis of giving greater political and administrative opportunities to the Sinhala-speaking majority in Ceylon and revitalising the Sinhalese-Buddhist culture. The tenor of the election campaign was against the English-speaking elite (of which Solomon Bandaranaike was very much a part) who had controlled — and still do, though less apparently — the country's urbane parliamentary political games. And since a high proportion of the English-educated were Ceylon Tamils who consequently had a disproportionately high share of government jobs, the 'Sinhala only' bill was seen as a threat to the employment and economic prospects of the Ceylon Tamils.

The language question and the accompanying Sinhalese-Ceylon Tamil tensions were temporarily resolved with the passing of the Tamil Language (Special Provisions) Bill in 1966 by a United National Party (UNP)-Federal Party (FP) coalition government. This bill made Tamil the language of administration in the Northern and Eastern Provinces. The UNP at that time needed the support of the FP to stay in power as it did not have an overall majority in parliament and more important, Sirimavo Bandaranaike's Sri Lanka Freedom Party (SLFP) and the UNP had still not got over the bitterness of the 1956 election and were still stolidly antagonistic to each other. The SLFP's socialist declarations — which were part of its campaign against the UNP — were never more than pretensions. Its leadership has belonged throughout to the same plutocratic group as that of the UNP. The same can broadly be said of the leadership of the FP and the Tamil Congress as also the Trotskyist LSSP and the Communists. It served the leaders well to dress the personality-power rivalries within the plutocracy in sophisticated ideological garb.

And for some time the people were taken in, but not all the people. Last April, the young, the educated unemployed, revolted against the pretensions. The revolt failed to overthrow the government but it set in motion political manoeuvres which are clearly exposing the conservative, *status quo* nature of all these political parties. A section of the UNP led by their shrewd 'strongman', J R Jayewardene, and the SLFP are seeking to come together. The unstated reason for this new-found amity between former opponents is primarily to consolidate themselves against such potential 'disruptionists' as those who took part in the JVP revolt in April. The SLFP may even be thinking of easing out some of the more vocal leftists within its own ranks and in the LSSP and the CP (Moscow). This would be a convenient moment for doing so. And, of course, an alliance between the two major Sinhalese parties (the SLFP and the UNP) would be admirably suited to shifting the focus of attention away from the bread-and-butter issues to the less 'harmful' — to the plutocrats — traditional Sinhalese-Tamil conflict. The FP, probably the most conservative party in Ceylon, and incapable of looking beyond Ceylon Tamil nationalism — its *raison d'etre* — is willing enough to join in this diversionary game. The flaw in the game is that it might become uncontrollable if carried too far and could lead to a violent movement for Ceylon Tamil independence.

The Ceylon Government is aware of the danger of such a conflict and of the possible Indian reaction that this might provoke in case the Ceylon Tamils have to be gunned down, so drawing the ire of the 37 million Tamils across the Palk Straits in Tamil Nadu. It is unlikely that the political manipulators in Colombo are inept enough to let matters reach that stage. But if the Ceylon Tamil demands were to become unbearable, the Ceylon government would like to make sure that the Indian Government is deterred from intervening on the side of the Ceylon Tamils.

For this reason it appears to have begun consultations with the Americans who were once anathema to Sirimavo Bandaranaike. Last week a very senior US navy admiral flew into Colombo and was whisked away for consultations with top government leaders. The visit was supposed to have been a secret one but the admiral was spotted at the airport. Obviously the Russians are so close to India that they cannot be relied on by Ceylon to be an effective restraining factor if India were to think of intervening — as it so effectively did last April, but in support of the Sirimavo government. The Americans more clearly fit the bill. They would be useful in deterring India as well as in helping to suppress any resurgence in guerilla activity. (There have been recent reports of youth groups re-organising themselves in the south of Ceylon.) After all its professions of a desire for an Indian Ocean free from the military presence of the big powers, the Ceylon Government may now be thinking of inviting a discreet American presence, perhaps in that ideal naval harbour of Trincomalee. And the Government of India, which is quite sincere about wanting an Indian Ocean free from the big powers, as long as it continues to have the strongest navy in the area, might then change its mind too and provide the Russians with some facilities in our ports.

Power

Matter of Management, Not Technology

LAST Wednesday's load shedding in Maharashtra, at 25 per cent, was sizeable. Its impact was sharper in Greater Bombay, where the 40 per cent cut meant that some 60 textile mills and several other non-process industrial units had to be closed down. The loss in production may be made up for, by working on holidays; and the urban consumers may not have felt the cut, thanks to BEST's supply being procedurally the last to be slashed on such occasions. But to the extent that this week's power crisis represents an overall energy problem in the state — rather than a problem of minute-to-minute Mw availability— there is a clear threat of such crises recurring in the near future. To the extent that the energy gap results from operational factors, these need to be corrected. It may well be that the deeper causes of these operational factors are endemic to the management system in the states envisaged under the Electricity (Supply) Act of the mid-fifties.

Wednesday's cut was precipitated by the shut-down of Koyna's eight units, following a caving-in in the tail race water tunnel. The problem had been noticed some months ago but its rectification had to be postponed because, with Tarapur operating at one-fourth its 400 Mw capacity (and being intermittently closed since February) and with Nasik's two units each of 140 Mw (total 280 Mw) capacity also under repair, Koyna's hydel resources (capacity 540 Mw) that are normally staggered over the summer had to be fully employed. Nasik's units were commissioned last year and, with teething troubles not uncommon among thermal plants, a plant factor of only 50-60 per cent (as against the normal 70-75 per cent) could in any case be banked upon. Tarapur's troubles are more difficult to comprehend. The total shut-down has been necessitated by the coincidence of transformer trouble in Unit I with the refuelling of Unit II. Even to get one unit operating, the transformer of Unit II would have to be transferred to Unit I, and, while Unit II is being refuelled a second transformer could then be got ready. Newspaper reports have time and again made out that Tarapur's troubles are the consequence of project design and nature of the nuclear technology — in which, in any case, we are novices. Yet anyone with lay knowledge of transformer operations should be aware that even the sort of trouble that has been publicised is strictly one of transformer maintenance and has little relation to the nuclear base of Tarapur. Moreover, when Tarapur was commissioned with a two-year delay in 1969, press reports had claimed that the Indian engineers too had contributed technically and had got several of their specifications adhered to. Therefore, while it may be true that the nuclear technology and fuel base at Tarapur is not of the type best suited for India and that generally speaking nuclear power anywhere works out to be rather more expensive than indicated in project report calculations, it may be practically misleading to pin the present responsibility on the technology.

Maharashtra's power planning has been based primarily on supply by Koyna, Tarapur, and Nasik, supplemented by the thermal and hydro units of the Tata Electric Companies. There is also the Railways' Chola power station; and Koradi is to be commissioned in 1973. Gauging total capacity requirements by demand calculations — with recognised allowances being made for peak load, spinning capacity requirements, and maintenance and repair — the approximately 1900 Mw of total capacity theoretically available in Maharashtra should be adequate to meet the current demand of about 1300 Mw. An obvious criterion should be the forced outages of units as against their planned outages, and Maharashtra's troubles in the context appear more defined. Clearly, the problem is not one of inadequate capacity or expansion as quite simply of successfully operating the available capacity. This has been more generally underlined by the Power Economy Committee which, while it took the trouble of looking into the various reasons for the non-optimum use of power capacity in the states, did stress the basic fact that operational efficiency, rather than outlay, was the major area requiring action. The Central Power and Water Commission and, of late, the Planning Commission have also tendered advice on a similar basis.

With electricity supply in the states under the monopolistic domain of the various State Electricity Boards, there are no inherent pressures for their optimal operation. Low plant factors planned for, or low on-line availability, indicate that with market pressures not impinging upon the Boards' operations and with their bureaucratic structures making room for political direction and spoils distribution, the

same technical and managerial ills that hinder other public sector undertakings affect the managements of the SEBs also. At the same time, the splintering of power supply and distribution among the states has minimised the chances of all-India economies in distribution and hence in capacity.

Maharashtra's immediate energy problem may be mitigated by fixing of lower voltage, by staggering holidays and recesses (which, however, simultaneously reduces the time available for repairs or maintenance), and altering grid procedures to include voluntary cuts, etc, but the more basic problem of a far-from-optimal operation of available capacity is one that requires serious, all-India attention.

Education

Men for All Seasons

A Correspondent writes:

THE executive council of the University of Poona did some business for the first time last week in well over four or five months — it approved of the minutes of an earlier meeting. Not only did this item of business engage it for several meetings over many months, it even involved a reference to the High Court of Maharashtra. This was the second time in the past year that the battles of this university had reached the judiciary. The first reference involved the legality of the election of the present vice-chancellor. (It was upheld.) The council has finally started an investigation into the alleged irregularities in the management of some recent examinations, a step vehemently opposed by the vice-chancellor till now. Meanwhile, according to reports, while the vice-chancellor and his executive council do their battles, the working of the university has come almost to a standstill.

In Bombay, for about six months now, the new vice-chancellor continues also to be the principal of one of the local colleges. A situation such as this would surely have raised some ethical questions in governmental or business circles on conflict of interest grounds; but evidently in India, academic freedom includes in it freedom from the usual norms of propriety also.

Apart from the question of propriety, one would have thought that in the present troubled times on our campuses, holding down one such job would be taxing enough for any individual. Certainly no university these days can afford a part-time vice-chancellor with divided loyalties. In fact, it was because the Bombay University confidently expected to have whole-time vice-chancellors in future that it dispensed with the post of the rector. Now it has neither a rector nor a full-time vice-chancellor.

Of course, the phenomenon of one person holding down several diverse jobs simultaneously is not very rare. The director of the Tata Institute of Fundamental Research is at the same time chairman of a government business corporation (Electronics Corporation of India) and the head of the government's space research programme, each one very much a full-time job. Probably the only other element common to these three institutions is the equal ignorance in governmental circles of all the three subjects. It is surprising, to say the least, that after 25 years of existence and with practically every facility that money can buy in India, the TIFR still doesn't have talent in reserve to take over the directorship and release the present incumbent to work full-time on his other assignments.

In this connection, it is interesting to note that by nominating three vice-chancellors on the University Grants Commission recently, the government has quietly abandoned its previously declared policy of not having vice-chancellors on the UGC. Similarly, when the old committee on Science and Technology was dissolved, one of the objectives of the government was to reconstitute it with a permanent secretariat and full-time members to oversee the entire gamut of governmental activities, from planning to execution of policies, in the subjects of science and technology. However, though in its present incarnation the committee is to be called the National Commission, it still continues with the old practice of part-time members, who will presumably meet a few times every year to pass platitudinous resolutions and depart with a glow of self-satisfaction over a job well done.

The unfortunate fact is that even the best of our academics, while eager to sit on various government committees to ensure that no one else comes between them and the levers of power in the central or state governments, are loth to relinquish charge of their institutes, which most of them run more or less as personal fiefdoms. (It is reported that after a lapse of over twenty years, the founder of another premier research institute in the country, the Indian Statistical Institute in Calcutta, has assumed the directorship of its research wing, even though he is well past seventy.) Very few of them want to exchange their pre-eminence on a campus for the anonymity of a committee in Delhi — even if it is called a commission and even if it is in the cause of science and education.

And without a full-time Minister of Education in New Delhi, the picture may be said to be complete.

BUSINESS

Untold Story

THE promptness with which the Reserve Bank has asked banks to take "immediate" action on the recommendations of the working group on finance for the tea industry shows how seriously it has taken the "impression" conveyed in the group's report of virtual discrimination by banks against certain sections of the industry. The report, finalised last week, states: "It is the group's impression that within the [tea] industry, there are sections which have been getting working capital finance in adequate quantities and others are experiencing difficulties." The group has not identified the favoured and neglected sections of the industry, but it is not difficult to guess that the successors to the established managing agency houses get the most favoured treatment from the banks, while other gardens face the rigours of financial discipline.

The group has attributed this to procedures, but has not explained why the procedures affect different sections of the industry differently. In this context, it should be noted that there are 13,000 small tea gardens in the country. Furthermore, the group notes that the credit shortage is felt "more acutely" in the north than in the south. The difference is explained away by the fact that tea gardens operate continuously in the south where tea plucking is perennial, while in the north plucking is seasonal. But this is perhaps not the sole reason for the difference in banks' approach to tea gardens in the north and south. The group could have analysed the pattern of ownership of tea gardens in the north and south and

their traditional relationship with the banks from the pre-nationalisation days. This it has not done in view of its pre-occupation with procedure.

This omission in analysis is less serious than would appear at first sight, since for operational purposes the group has recommended an easing of credit flows to the tea industry as a whole. And the Reserve Bank, on its part, has told the banks that they should consider "making suitable modifications in existing limits, if necessary by undertaking a review of credit facilities already sanctioned". The sharp phrasing of the direction to the banks suggests that the shortcomings of bank finance are not merely procedural. In a different context, the report of the group admits as much when it states that: "Banks extend credit facilities to the management and not the garden as such. A change in ownership and management might lead to a reduction in, or withdrawal of, the limits already sanctioned." Does this show shortcomings of procedure or bias on the part of bank managements?

As regards procedural shortcomings, to take the most serious one noted by the report, banks have shown unpardonable callousness in assessing credit requirements all these years and, what is surprising, this has persisted even after the nationalisation of banks in July 1969. The report states: "The actual loan limits for working capital sanctioned by banks are generally 50 to 60 per cent of past sales or production. With the idea of retaining a portion of the sales inflow so that bank advances are actually self-liquidating, it is also the usual practice of banks to schedule the cash credit/overdraft accounts of tea gardens monthwse and place a ceiling on the total amount of withdrawals. . . . Since sale proceeds are not always fully realised during the course of a season, gardens are sometimes not able to bring their accounts to credit by the end of the season with the result that the limits for the subsequent seasons are curtailed to the extent of this shortfall."

Now this practice should be read in the context of the group's 'impression' that "there are sections which have been getting working capital in adequate quantities". Obviously, the procedure is applied selectively. This would suggest that sections of the tea industry are in the hands of managements whom banks consider undesirable, perhaps not always unjustifiably. But it is not inconceivable that sometimes banks have put a squeeze on garden managements and helped their transfer to desirable hands! This is the story that has not been revealed in the report on procedures.

The working group has also reported extensively on how term finance should be channellised to tea gardens. It has suggested that lead banks in the tea growing districts should lead consortiums of banks, SFCs and the development banks and that ARC should provide liberal refinance to the banks. The group apparently has not considered the proposal for a tea development foundation — visualised as a merchant banking institution for the tea industry with powers to impose a levy on prosperous gardens and take over gardens that lose and default —, judging from the fact that the foundation proposal has been appended to the report, virtually without comment. The emphasis is on the consortium approach which places the responsibility for providing adequate working capital and development finance on the banks. The Reserve Bank has yet to take a decision on these recommendations.

On the question of term finance, the group's finding is that agencies like the Tea Board and the Agricultural Finance Corporation which assist the tea industry, have just plodded along. The Tea Board has during the eight years ended March 1971 disbursed Rs 4.11 crores under 127 applications under its Tea Plantations Finance Scheme, started in 1963 with Rs 4.50 crores. It has disbursed, in addition, during the 13 years ended March 1971 Rs 6.40 crores under 773 applications from the fund of Rs 9 crores created in 1960 to finance the Board's Tea Machinery and Irrigation Equipment Hire-Purchase Scheme. ARC's sanctions at the end of June 1971 stood at a mere Rs 1.31 crores and disbursals had barely touched the Rs 1-crore mark. The development assistance stemming from these agencies should be compared with the tea industry's estimated requirement of development capital. The estimates range from Rs 100 crores to Rs 150 crores for a decade to sustain a 3 per cent growth in annual output. The industry has been getting not even 5 per cent of its annual requirements.

The shocking neglect of an industry which is still one of the nation's two largest exchange earners is attributed by the working group, once again, to procedure. Says the report: "A major difficulty in the way of a garden obtaining term credit is its inability to provide the type of security acceptable to the institution. The estate or garden property is itself the principal security that can be offered for this purpose. However, the property is also in a number of cases charged as collateral security for working capital finance. Under the existing conditions, where the garden has to approach a term lending institution for long-term finance and commercial banks for workng capital, this entails a conflict of interests. The term lending institution seeks a first charge on the property but often finds it difficult to obtain this because of the reported reluctance of the commercial bank to release its charge on the same held as collateral. Because of this, the Tea Board [now] permits loans to be granted on the basis of second mortgage. However, this does not solve the problem for the industry as a whole, since the Tea Board by its very nature can meet only a portion of the industry's needs. Recourse to more than one institution for finance could also entail some difficulty in regard to repayment arrangements because of lack of coordination in the apportioning of the available surplus as between the lenders."

An official report — especially one drafted by commercial bankers and central bankers — cannot be expected to call a spade a spade. But freely paraphrased what the working group has pointed out is the stranglehold the banks have on tea gardens. Not only do they choke working capital but bar access to development capital. And all this in the name of banking procedure! But why did the Reserve Bank allow the banks to have their way all these years!

The working group has viewed the problem of tea finance as one of procedure and sharing of security. Accordingly, it has placed on the banks the responsibility of ensuring adequate finance for running and developing tea gardens. Lead consortiums, share the security and finance and take the assistance of lawyers: that is the recommendation. The approach appears to be practical at first sight. The question: in view of their past performance as revealed by the report, is there justification enough to entrust the task to banks? True enough, the Tea Board is expected to be associated with the bank-led consortiums. But will this ensure a change in the attitude of bank managements to the tea industry? More important, it is clear from the report that tea financing needs specialised knowledge and such knowledge banks have not acquired — as reflected by their reliance on first mortgage or garden property. The working group has not paid attention to this aspect of the problem. Perhaps a specialised financial institution,

in which the industry has a stake, is unavoidable.

Heavy Electricals

Lop-Sided Growth

BHARAT HEAVY ELECTRICALS was formed in 1964 to take over the three units of Heavy Electricals (India) which, besides administering the Bhopal factory at that time was also constructing three new units at Tiruchirapalli, Hyderabad and Hardwar. The Tiruchi unit, set up with Czech collaboration, manufactures heavy pressure boilers; the Hyderabad unit, biult with Czech and Swedish collaboration, produces heavy power equipment (turbo sets) and switchgears; and the Hardwar unit, the biggest of the three, manufactures heavy electrical equipment (steam turbines, etc) with Soviet assistance. Total capital investment on these projects till March 31, 1971 was about Rs 145.5 crores.

The seventh annual report of the company for the year ended March 31, 1971 shows an improvement of 8 per cent in output, the value of production being Rs 48.3 crores. This was also the first year of profitable operation for the company with an operating profit of Rs 65 lakhs (after providing for depreciation of Rs 4.7 crores, interest charges Rs 6.2 crores, contingencies Rs 1.4 crores and expenditure on social overheads Rs 1.5 crores) against an operating loss of Rs 1.49 crores during 1969-70.

The Annual Report, impressive as it is in both volume (91 pages) and the data it contains, gives some interesting facts. Of the three units under its control, only the heavy boiler plant at Tiruchi was viable — accounting for about 53 per cent of the total output of the company and almost the entire profits. The Hyderabad unit suffered a decline in output partly due to labour strikes while the Hardwar unit, still in the process of completion, showed an increase of 14 per cent in output. Both these units are stated to have experienced difficulties during the year in processing alloy steel castings and forgings so much so that the company requested the Central Government to revive the abandoned Central Foundry Forge Unit at Hardwar. It is difficult to accept the logic of this backward integration; there does exist in Hyderabad a large forging unit and there are at least two big units in the western region competent to deliver any type of forged items. In any case, the Heavy Engineering Corporation, also in the public sector, has the largest capacity in the country for heavy forgings and has problems in using its capacity fully. Why then set up a forge-cum-foundry unit and that too at Hardwar?

Having raised this issue, the directors' report also mentions in some detail the efforts of the company to set up satellite industrial complexes around each of its units for the development of ancillary industries. Not surprisingly, progress on this front has been slow.

The total value of orders received by the company upto March end 1971 was about Rs 446 crores, including orders received during the year 1970-71 amounting to Rs 181 crores. The outstanding order book position, at around Rs 368 crores, should see the company through for several years to come. This, of course, is essential for any company engaged in manufacture of heavy electrical equipment with production cycles ranging upto 24/26 months; to avoid erratic order position and consequential gaps in the utilisation of capacity, the company has made a proposal to the government for "imprest order" for the manufacture of a few turbo sets in anticipation of their final allocation to definite projects. This by any means is an unusual request and if heeded to will set a precedent and almost all the other public sector projects can be relied upon to ask for imprest orders. It is pertinent, however, to state here that total advances received by the company from its customers were about Rs 51 crores. Without in any way minimising the constraints that a highly capital intensive unit like Bharat Heavy Electricals faces, it does seem prudent that the company should take steps to effect rigorous inventory control and also reduce its sundry debtors. Its value of production during 1970-71 was about 20 per cent of its total net assets; closing stocks of finished goods were at the level of 8.5 months' sales and total current assets as a proportion of total net assets were about 40 per cent.

Despite the near monopoly conditions which the company enjoys in its field of activities, it is the Hardwar unit's operations which would ultimately seem to determine its viability. Even the directors' report admits that this unit is unlikely to reach the break-even point before 1975-76, and even the modest profit of Rs 65 lakhs witnessed during 1970-71 is as a result of a change in the system of valuation of work-in-progress which alone has contributed to a reduction in loss of about Rs 79 lakhs (page 87 of the Annual Report). Expenditure on R and D activities during the year under review was hardly Rs 3 lakhs while consultants' fees and expenditure on technical documentation from the consultants together amounted to Rs 114 lakhs. This is obviously a field where the company could show much improvement in the future.

Finally, one cannot help wondering how the table on sources and application of funds during 1970-71 (page 25) was compiled: simple calculation from the Balance Sheet data indicates that the company raised funds aggregating Rs 12.9 crores during the year by way of increase in loans from government amounting to Rs 3.8 crores and increase in current liabilities amounting to Rs 9.1 crores. This was utilised to repay bank loans amounting to Rs 1.1 crores, extend deferred credits of about Rs 1 crore and acquire fixed and current assets of Rs 10.8 crores. A matter of detail, no doubt, but at the same time let the facts be presented straight.

LETTERS TO EDITOR

Moonshine on Employment

YOUR editorial "Moonshine on Employment" (February 19) is justly critical of of the Expert Committee on Unemployment. Unfortunately, however, on one point at least, in steering the Committee away from the rocks of Scylla you have set course for the whirlpool of Charybdis. You castigate the committee for erring on simple basic issues like using 'jobs' as a criterion for investment programmes without taking into account their duration, and you go on to add "surely it is more relevant to express the employment potential of these kind of programmes in terms of so many man-days of employment instead of simply so many 'jobs' ".

But in what sense is your criterion more relevant? The Committee fails to take into account duration, but you fail to take into account the timing of the employment. It is far from clear that one job provided for say 150 years is superior from a welfare point of view to two jobs provided for 50 years each. No doubt in man-years the former programme yields more but on the other hand one might justifiably wish to attach a larger weight to the immediate future when jobs are scarce as against the more distant future, when hopefully there will be more jobs available in the economy.

This is not the place nor am I the competent person to write on intemporal choice in economic planning. Suffice it to say that whilst the problems are basic they are not simple. Indeed in assessing investment projects and programmes there is really no substitute for comprehensive and systematic analysis which takes into account the rival benefits of employment, savings, and the correct valuation of resources produced or consumed; further one has to make adequate allowances for the time when both benefits and costs accrue to the economy.

In recent years, a considerable amount of work has been done by groups of economists in developing a thorough going methodology to try and tackle precisely this type of problem. Although a certain amount of disagreement persists among them it is not on a scale that would justify the rejection of their basic ideas. Much could be gained and at least some harm could be avoided if systematic evaluation became a basic tool of control of investments in the Indian economy; indeed, with adequate political and bureaucratic support it could provide a rational guide to the direction for economic planning.

But it is unlikely that this kind of support will be forthcoming in the near future; an impersonal set of rules for judging investment programmes is hardly an attractive alternative to those who today sit on Committees and expertly guide our future. We must, therefore, learn to content ourselves with slogans and sophistry in the hope that at least some of the decisions that emerge will coincide with the right ones.

SUDHIR J MULJI

New Delhi

[THE editorial in question was not concerned with the "criterion for investment programmes"; nor is the report of the Committee on Unemployment. So the question of the editorial suggesting a criterion as a superior alternative to any recommended by the Committee did not arise. True, project analysis and evaluation are subjects on which considerable work has been done by some economists; also, they remain, perhaps, fruitful areas for discussion. But such discussion does not have to lean on what was *not* said in our editorial.

As is very clear from the sentence quoted in the letter, what was suggested in the editorial (and as a minor point) was that man-days of employment were a more meaningful *measure* of the employment potential of construction projects than the number of jobs created. Two construction projects may each employ 50 workers and in that sense may be said to create 50 'jobs' each; yet the employment potential of the two would be very different if one of the projects lasts a month and the other six months. Surely, to point this out does not amount to saying that "one job provided for, say, 150 years is superior from a welfare point of view to two jobs provided for 50 years each". Certainly, there can be situations (such as a drought) when it may be desirable to start projects which yield large numbers of short-duration jobs. However, it was not the purpose of the editorial in question to go into all that.

Ed]

Capitalist Development in Agriculture

UTSA PATNAIK (Review of Agriculture, December 25, 1971, p A-190) finds it easy to take the position of a defender of the purity of Marxist Theory and Marxian concepts. She has no doubts whatsoever that she knows what the correct Marxian concepts are and what has got nothing to do with Marxist theory. It is good for the much neglected theory to have such enthusiastic defenders. In this matter I am glad not to have the slightest intention of contending with her and if she is so certain that my ideas are mine and are not at all Marxist, I would not have much hesitation in admitting that I am no Marxist. And I am in good company. Marx himself once threw up his arms in sheer panic caused by some formidable indefatigable Marxists and declared "I am not a Marxist".

But I would like to contest the point that in Marxist theory "any one who wishes to find out what the concepts are can easily do so". Maybe true Marxists like Utsa Patnaik know exactly where, in which collected work, which volume, which page and which footnote, the correct definitions of any particular Marxian concept lies. But in my acquaintance with Marx's works I find class as a concept being used all through, in every bit of his writing, but very rarely does he explicitly define what he means by class in general or what constitutes a particular class. Even about such a class concept as the Proletariat one has to understand what Marx understood by it from the way he uses it in the entire body of his works. I certainly would never take up any sentence anywhere to pin it down as the only true definition. As to rural classes, Marx's references are even less explicitly defined. Lenin did use a particular definition, but there is no reason to think that the categorisation he adopted for the Russian economy of a certain period will prove equally useful for analytical purposes irrespective of what other country or what other period one is considering. Utsa now produces in her latest rejoinder a definition of rich peasants and poor peasants as those who have $y \geqslant 1$ and those who have $y \leqslant -1$ where y is the ratio of quantity of hired labour to family labour. I do not see any reason whatsoever to accept this definition either as useful or as Marxist unless one points out (a) how this definition helps as an analytical tool unless the categories, so defined, reveal qualitative homogeneity as within the categories and qualitative differences as between the categories; and (b) how this definition accords with the definition or definitions of class implicit in Marx's writings and the works of other later day Marxists.

It is true that political pamphleteers have conceived of Marxism as a museum of fossilised concepts each with a clear-cut definition; but Marx was a scientist and in his own works one can trace metamorphoses and development of concepts. If Marxism is to grow as a science, ruling with an iron rod as to what is *the* correct Marxist concept is hardly the right thing to do.

Having made this general point I have no intention of replying to Utsa Patnaik point by point. The reader who cares to read what I have written and what she has written can surely form his own opinion. Only one point I will allow myself to repeat. I agree that there is no particular virtue in taking surface area of holding as farm size and that there could be various other measures like volume of output. But I also maintain that the blurring effects that Utsa Patnaik is worrying about will not be avoided if one takes volume of output rather than acreage of land held as the measure of farm size. I have given my reasons in my previous reply (November 6, 1971, p 2291), and I subscribe to them, irrespective of what Lenin might have said.

ASHOK RUDRA

New Delhi

Problems Crowd In

Romesh Thapar

EVEN as the electioneering draws to an end, and we speculate on the possible results, the situation in Pakistan is taking the kind of turns which suggest that we should be more seriously involved in trying to find some way of preventing the rot. Valuable weeks have been lost in electioneering. One can only hope that for Pakistan the point of no return has not been crossed. Bhutto's perambulations we can understand, but the rise of the sinister Tikka Khan can be a portent of what is in store for us.

The return to Pakistani-Punjabi militarism, and the adoption of revanchist postures, can only be countered if Bhutto develops the courage to recognise Bangladesh, to denounce the militaristic hegemony in Pakistan, and to put his faith in the possibility of peaceful co-existence of the states of the subcontinent. So long as this new line is not asserted boldly, the danger of a slide-back to militarism in Pakistan is only too real.

The trouble in Indian policy-making is that no depth studies have been conducted on the decision-making process in Pakistan. Even the ethnic background of Tikka Khan — not Pathan, as is asserted, but Punjabi — is a matter for debate in Delhi. We tend very much to view Pakistan within the disciplines of an Indian frame of reference. Repeatedly, we go wrong. But this does not persuade us to revise our approach.

For example, if some short-sighted ones are careful not to smile over the possible disintegration of Pakistan, there are others who will make a major issue of some "pockets" or "heights" captured during the last conflict, forgetting the advantages of an internationally recognised border and the dangers inherent in Pakistan's disintegration which would spawn several soft states open to manipulation by the major powers. Discussions at various levels are coloured by the prejudices and fears of yesterday. The necessary adjustments to the new reality of a Pakistan reduced to half its size have not really been made by those who have to handle these problems.

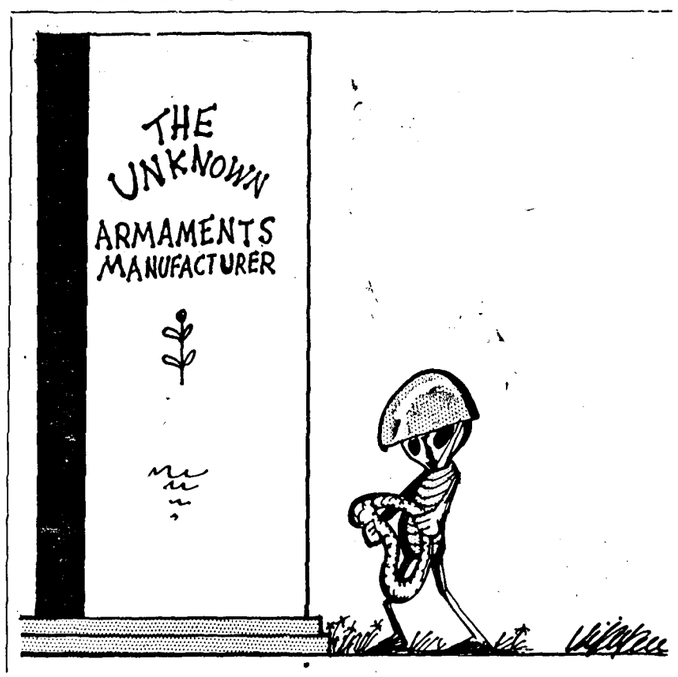
The post-election weeks are bristling with problems. While Pakistan and Bangladesh will continue to haunt our policy-making, this country has yet to raise the critical resources for the challenges that are emerging. Do we invest in defence — whatever that may mean!—or in the problems and welfare of the people? A crucial question which will shape many decades. Will the political mandate be tough or flabby? What kind of sanctions will it be possible to mobilise against those who would lead us away from priority tasks? Will we be able to make an impact on the living of the mass of the people or will we have to titillate them to keep them quiet? Are we moving towards a system of political, economic and social management or marking time surrounded by "operators" who have no idea of what a system means — in fact, who would like to down the system and follow "the leader", forgetting that to survive, even a leader needs a system?

The questions are relevant. It is good to hear them being posed more frequently, not in the context of a dreary *status quo* but in the interests of thorough-going change. It is equally clear that at the highest levels of political and bureaucratic decision-making, there prevails an elephantine bankruptcy of inquiry, ideas and initiatives. The Prime Minister is aware that there will be no thrust forward so long as the economic ministries are not re-designed for performance and re-staffed with professionals. But a beginning has to be made with the Finance Ministry and its paralysing tentacles. Without this minimum, the rest is impossible. Will she take the plunge?

As the problems crowd in on us, one wonders whether or not some permanent institutionalised structure is needed within the highest levels of government to plan and co-ordinate policy. No single politician or bureaucrat is able to cope with the kind of challenges that are building up. In the name of such persons all manner of strange decisions are taken and moves launched. A large and complex country cannot be ruled in this fashion, even though Nixon of the USA is trying hard to set some such style.

Yes, we are waiting impatiently for the election business to be completed. Then, perhaps, we can start thinking about how to get moving.

March 6



Far-Ranging Diversification

Hansavivek

INDIAN OXYGEN submitted in February 1971 a comprehensive expansion plan for the next few years, envisaging additional investment of capital and major diversification of the company's activities. Several among the proposed new activities are not directly related to existing manufacturing facilites and products and in many of them there is no indigenous technical knowhow available. In order to expedite government clearance, the management has grouped the projects covered by the plan into separate phases. Government decision in respect of projects included in the first phase is being sought immediately. The parent company, British Oxygen, holding a little over 66 per cent interest in the Indian company, has agreed to forego its rights in respect of a further issue of shares by the company so that its shareholding can be reduced to an "acceptable level". N Dandeker, who has since relinquished office as chairman and director under medical advice, has observed that over-capitalisation of the company at the risk of having to scale down the rate of dividend can serve no useful purpose. He has advocated that this consideration should also influence the other facets of government policies relating to capital issues, including conversion into equity of loans advanced by financial institutions.

IOL established production of open arc continuous electrodes at its Ambattur factory last year. It has also initiated steps for implementing a project for the manufacture of certain tubular hard facing welding rods and electrodes in technical collaboration with an Australian company. The present licensed capacities for industrial gases are almost fully utilised and those for electrodes are expected to be fully utilised within the next year or two. The company's future, according to Dandeker, depends upon diversification and development of its manufacturing activities. During the year ended September last, capital expenditure to the tune of Rs 57 lakhs was incurred, relating mainly to expansion of the oxygen factory at Delhi, gas distribution equipment and minor additions and replacements of capital assets in various units.

Despite the acute shortage of steel and several other raw materials, IOL expanded sales by 18 per cent to Rs 20.52 crores. Export sales suffered a setback mainly due to delay in renewal of the bilateral trade agreement between India and Egypt. Gross profit

The Week's Companies (Rs in Lakhs)

	Indian Oxygen		Reckitt and Colman		Arlabs	
	Latest Year 30-9-71	Last Year 30-9-70	Latest Year 31-10-71	Last Year 31-10-70	Latest Year 30-6-71	Last Year 30-6-70
Paid-up capital	462	462	247	212	43	43
Reserves	572	564	125	105	29	31
Borrowings	126	170	102	60	99	77
of which Term borrowings	76	119	—	—	22	21
Gross fixed assets	1612	1573	321	309	125	112
Net fixed assets	638	667	266	211	65	57
Investments	4	4	2	2	1	1
Current liabilities	482	360	135	112	17	21
Current assets	999	886	394	268	123	124
Stocks	546	511	146	109	86	63
Book debts	413	337	178	147	31	47
Net sales	2052	1738	631	659	122	146
Other income	11	12	17	20	2	3
Raw material costs	767	638	243	281	75	82
Wages	528	410	158	139	14	13
Interest	17	21	9	5	10	8
Gross profit(+)/loss(—)	284	274	89	116	7	18
Depreciation provision	82	84	11	9	6	7
Tax provision	129	114	50	66	1	6
Net profit(+)/loss(—)	73	76	28	41	—	5
Development rebate provision	3	3	1	2	—	—
Transfer to reserves	5	8	—	12	—	—
Dividend						
Amount	65	65	27	27	—	3
Rate (per cent)	14	14	11	14	—	6
Cover (times)	1.08	1.12	1.00	1.44	—	1.66
Ratios (per cent)						
Gross profit/sales	13.84	15.76	14.10	17.60	5.74	12.33
Net profit/capital employed	6.29	6.35	5.91	10.87	—	3.31
Inventories/sales	26.61	29.40	23.13	16.54	74.92	43.15
Wages/sales	25.73	23.59	25.04	21.09	11.47	9.04

increased by less than 4 per cent at Rs 2.84 crores, but this has been arrived at after charging Rs 47 lakhs paid by way of additional bonus for the previous year in terms of a settlement with various unions. The Controller of Capital Issues declined to accord consent to the company's proposal to issue bonus shares as it failed to satisfy one of the additional guidelines covering issue of bonus shares. The company has since made a fresh application.

RECKITT AND COLMAN OF INDIA is seeking de-registration as a 'dominant undertaking' under the MRTP Act as, according to the chairman, A K Sen, the company does not hold a 'dominant' market share in respect of any of its products in terms of the MRTP (Classification of Goods) Rules, 1971. Sen says that the company had been registered as a 'dominant undertaking' despite representations to the contrary supported by relevant statistics and other information. Work on modernisation of the ultramarine factory is now in its final stages of completion, and the benefits of this investment should begin to be felt early in 1972. Implementation of two other projects (soluble analgesics and PCMX) are well advanced and, subject to receipt of the capital goods licence which is still awaited, are expected to be in operation by mid-1972. During the year to October last, RCI incurred capital expenditure of Rs 66 lakhs, a substantial part of which pertained to expansion, modernisation and diversification projects. The shortfall in sales occurred largely in the eastern region, notably due to the disturbed conditions in the first half year followed by dislocation in trade and movement of goods arising out of extensive floods and cyclones. Exports were maintained at around Rs 20 lakhs. The company is exploring export-oriented projects; one such project is in an advanced stage of investigation and evaluation. Profit margins were affected by rising prices of raw and packing materials coupled with increases in wages, interest charges and higher expenditure on advertising to meet increasing competition. The chairman expects that benefits of the expansion programme and improved marketing techniques will find reflection in the current year's sales and earnings.

ARLABS intends to broaden the range of its product-mix by undertaking manufacture of pigments and reactive dyes, which have a good market potential. Meanwhile, first phase of the present expansion is likely to be completed soon. The question of diversification of production of the subsidiary, Pigments, Lakes and Chemicals, is also being considered. An application has been made to the Maharashtra government for approval to this unit's programme of production of azo dyes. Arlabs' results for the 17th year ended June last turned out to be very poor owing to a "crisis" in the vat dyes and solubilised vat-dyes market. Production had to be curtailed severely because of poor offtake, and workers had to be laid off. What aggravated the situation was acute competition and tendency of small-scale producers to unload goods in the market "at any price". On the other hand, prices of certain basic materials such as soda ash and caustic soda shot up and supplies were not available. G C Shroff, chairman, expects improvement in market conditions in the near future, but he would like to wait to take an optimistic view "until improvement on the horizon becomes a reality".

ULTRAMARINE AND PIGMENTS proposes to undertake a major diversification programme by setting up a plant for the annual manufacture of 10,000 tonnes of synthetic detergents and allied products. The unit will be located at Ambattur near Madras adjacent to the company's existing factory manufacturing ultramarine blue. The project is estimated to cost Rs one crore, including the foreign exchange component. ICICI has agreed to grant a term loan equivalent to $352,823 to cover the cost of imported equipment. The balance cost and funds for working capital would be met from internal resources and borrowings. The 'letter of intent', received in 1969, has been converted into an industrial licence. The application for a licence for import of capital goods has been processed and cleared in respect of most of the items. The project has a sales potential of Rs 6 crores per annum, according to the chairman, N S Iyenger.

FROM OUR CORRESPONDENTS

WEST BENGAL

Stability: A Remote Prospect

WITH the polls just a week away, election campaigns of the major contestants are slowly, if belatedly, picking up, as also the violence in selected pockets of CPI(M) influence in Greater Calcutta and Burdwan district. The principal campaigner for Congress(R) is the Prime Minister who is scheduled to address more than two dozen mass meetings all over the state. Despite the fairly large draw in the Prime Minister's meetings, the main theme of the Congress(R) election campaign in this state suffers from a wide credibility gap. Congress(R) is harping on its objective of stability based on law and order. With the ding dong battles going on between Congress(R) action squads and CPI(M) cadres in about three dozen key constituencies despite a heavy concentration of the state police, CRP and armymen, not to speak of the memory of dozens of suspected Naxalites shot dead out of hand and hundreds tortured in police lockups, the unsolved mysteries of the Barasat and Nabagram mass murders, the failure to institute the promised judicial inquiry into the Baranagar massacre, reportedly the handiwork of Congressite gangs and a repetition of similar depredations in Howrah city — all this happening during spells of President's rule with a Union cabinet minister presiding over the state administration most of the time — there is really very little to inspire popular faith in Congress(R)'s capabilities and determination to restore the 'law and order' the state is yearning for.

Even those charitably disposed towards Congress(R), barring of course CPI circles, find it hard to distinguish between that party and CPI(M) so far as participation in violent actions is concerned. Regardless of the fact that there has been hardly any clash between CPI(M) and CPI in recent months, the latter party has, however, been consistently running down the former as a party of murderers, while keeping absolutely silent about the brutalities perpetrated by Congress hoodlums against CPI(M).

Pro-Congress(R) and CPI circles apart, sections of the Left-minded public opinion in the state which had been duped by the mass media on the eve of the midterm polls last year to hold CPI(M) primarily responsible for the climate of violence in West Bengal have perceptibly shifted their position. Despite the suppression and distortions of the news by the press and radio these sections in the urban areas have now come to regard Congress(R) as the more aggressive party.

WHO KILLED HEMANTA BASU?

Indeed, the political wheel seems to have turned a complete circle in that Congress(R) is today under the same heavy cloud of suspicion and distrust in which it was able to put CPI(M) a year back. On the eve of the last midterm polls, on February 20, 1971, the veteran Forward Bloc leader Hemanta Basu was murdered in broad daylight on a north Calcutta street. Immediately afterward, Siddhartha Sankar Ray, then a budding Congress(R) leader, came out with the statement that "after having visited the venue of the murder and talked with the local inhabitants he has got the impression that the Marxists were responsible for the murder of Shri Basu" (*Jugantar*, Calcutta, February 21, 1971). Ray was so sure of his facts that he had no hesitation in attacking the CPI(M) state chief Promode Dasgupta for venturing with a message of condolence about Basu's brutal murder. "Shri Dasgupta's statement" said Ray, "is surprising. It is like a patricide's performance of *sradh* with pomp and splendour after having murdered his father brutally" (*Ananda Bazar Patrika*, Calcutta, February 21, 1971).

Exactly 362 days after the murder of Basu, the Forward Bloc leader Ashok Ghosh made the following declaration from the rostrum of a joint meeting with CPI(M) at the Calcutta maidan: "There is a deep political conspiracy about Hemantada's murder. We asked each and everyone, the President, Prime Minister, the State Governor and the former Chief Minister (Ajoy Mukherji) to investigate the murder. Though one year has passed, none has conducted any investigation. So, one naturally concludes, there is such a powerful circle behind the murder, that neither the Centre nor the state government dares to touch it." Only a Leftist government, the FB leader said, would be able to produce the murderer before the people. CPI(M) promptly issued a handbill juxtaposing Siddhartha Ray's statements last year with Ashok Ghosh's latest pronouncement and with telling effects.

To take another characteristic episode. On February 18, a number of Calcutta dailies published a news item that according to Congress(R) sources CPI(M) hoodlums had murdered a Congress activist, Nirmal Chatterji, at Sonarpur, a south-eastern suburb of Calcutta. Shortly afterwards, *Ganashakti*, the CPI(M) daily, published a long and harrowing statement by Gita Chatterji, Nirmal Chatterji's widow, in the course of which she said:

"On February 16, at about one-thirty or two in the morning... we were awakened by a series of raps on the window. To our queries, came the reply: 'We are from the police station, the OC and his companion'... I opened the door. Immediately eight or ten persons rushed into the room and dragged my husband out. Gana [the leader of the gang] kept back in the room and called in another person. .... Then Gana and his companion overpowered me and raped me one after the other. Then they took away all my ornaments and escaped on my husband's bicycle." Next morning her husband's dead body was discovered on a roadside some distance away. Soon thereafter the police came to arrest Gana and have Gita Chatterji medically examined.

This statement by Gita Chatterji along with a photograph showing her with a child on her lap while making the statement to CPI(M) leader Harekrishna Konar in the party's state headquarters was published also as a handbill with an introduction saying that the murdered Nirmal Chatterji was a member of CPI(M).

The credibility of these exposures by CPI(M) and its allies has been enhanced by the experience of the common people including chunks of Congress supporters in the 'liberated' areas. Hooliganism and extortions by the elements of the underworld who have now largely flocked under the Congress(R) umbrella have become an everyday occurrence in these places.

Unless all these acts of vandalism have already succeeded in extinguishing the spirit of resistance in the people of the state, Congress(R) can hardly expect to score any impressive gain in the coming elections. On the basis of the last midterm poll results which gave a fairly accurate picture of the respective parties' individual pull among the voters, the Left Front-FB alliance appears assured of winning about 110 seats in the House of 280.

More important than the exact equation in the coming Assembly between the two principal opposing fronts led by Congress(R) and CPI(M) is the fundamental fact that the two more or less evenly balanced consolidations of the masses in this state are getting set on a collision course. This precludes any possibility of real stability or re-establishment of genuine law and order, whatever be the arithmetic of the election.

March 6

Letting Up on Foreign Investment

Nachiketa

THE government appears to be preparing to relax the rules governing foreign private investment. Even wholly-owned subsidiaries of foreign companies are to be permitted to be set up provided they undertake to export their entire output. In case the new venture is to export less than 100 per cent of its output, the extent of permissible foreign capital participation would be subject to negotiation with the government. Hints of these policy changes were first given at the deliberations of the Indo-British Technological Group.

A fresh look at the policy towards foreign investment is welcome. By a notification issued on July 25, 1970 the government had allowed large Indian industrial houses and subsidiaries of foreign companies to expand and diversify their production if they undertook specific export commitments. The minimum export commitment to be undertaken was to achieve, within a period of three years, a level of exports equal to 75 per cent of the new or additional production in respect of commodities reserved for the small-scale sector and 60 per cent or more in respect of other products. This concession was granted "as a part of the government's policy that industrial capacity would have to be consciously and specifically built up in order to facilitate production for exports, particularly in respect of those items where India has a comparative advantage and where favourable trends are emerging in the international markets". The government's latest move thus appears to be a further step in this direction since the policy changes announced two years ago were restricted

to subsidiaries of foreign companies already operating in India.

Homework Not Done

The proposed incentives to export-oriented foreign investment, the government expects, would lead to the shifting of complete manufacturing units to India in labour-intensive lines of manufacture to take advantage of the supply of relatively cheap skilled labour in this country. The reported proposal of one of the Italian scooter manufacturing firms to shift its entire plant to India is an example of this type. Automobile ancillaries and electronics are generally regarded as particularly attractive fields for foreign investors. Foreign investment of this type will, it is expected, help to reduce the number of unemployed technicians and increase exports of non-traditional manufactures.

The Foreign Trade Ministry is reported to have been toying with the idea of encouraging foreign investors to set up export-oriented units here for nearly three years, though the Export Policy Resolution approved by Parliament nearly two years ago contained no mention of the subject. In fact, it appears that even now the government had not done its homework properly before putting up its proposals to the Indo-British Technological Group. The terms on which fresh foreign investment in export oriented units would be allowed have not been specified. This smacks of the earlier haphazard handling of the proposal of the Italian scooter manufacturing firm.

Much of the confusion about the government's policies towards foreign investment arises because of the absence of a single body like the Japanese Foreign Investment Council to take decisions on all aspects of foreign investment proposals. The Foreign Investment Board, manned entirely by bureaucrats, does not have the authority to take decisions on policy matters. The diffusion of policy-making powers among the various ministries, which are often at loggerheads with each other, complicates matters for the foreign investor. So much so, the Secretary to the British Department of Industry and Trade, Max Brown, found it necessary to seek clarification from the government on the basic question whether India would welcome foreign private investment at all. He also wanted assurances that the government's policies towards foreign private investment would be stable.

The concern is not misplaced. Over the last decade the government has shown itself to be anxious to reduce the foreign equity holding in subsidiaries of foreign companies operating in India. Expansion of these subsidiaries has been permitted only on condition that they increase the proportion of Indian equity. Here, again, no clear-cut policies have been followed and each case has been dealt with in an *ad hoc* manner. As a result, foreign subsidiaries in a strong bargaining position have managed to escape with smaller concessions.

It was only last month that the government had at last come out with a precise formula setting out just how much of their equity capital subsidiaries of foreign companies would have to part with to Indian nationals if they proposed to expand. Thus companies with the foreign holding exceeding 75 per cent would have to raise 40 per cent of the estimated cost of expansion by issue of additional equity capital (including premiums if any) to Indians. The corresponding proportion for companies with 60-70 per cent foreign ownership would be 33-1/3 per cent and for those with 51-60 per cent foreign ownership 25 per cent. If this formula is adhered to, then the scope for bureaucratic discretion and indecision and consequent delays would be minimised. The foreign subsidiaries would know in advance the 'cost' of their proposed expansion schemes in terms of the increase in the proportion of Indian share capital that they would have to allow.

The government's refusal in the past to permit new foreign subsidiaries to be set up has been justified on the ground that they would offer unequal competition to similar Indian enterprises, involve high dividend remittances and create, through their production policies, destabilising conditions in the national market. If the foreign subsidiaries undertake to export all or a substantial part of their output, these adverse consequences are avoided. The government needs, however, to move from vague generalisations to clear policies, precisely formulated. Vague statements such as that "in cases where export potential is less than 100 per cent the extent of foreign equity investment could be negotiated" are not very helpful to intending foreign investors. The foreign investors' interest in investing in India is unlikely to survive the ordeal of their schemes being subjected to lengthy negotiation with a number of ministries with papers moving back and forth from one ministry to another. The government needs to consider whether the already accepted formula that established foreign subsidiaries would be allowed to expand subject to the condition that they undertook to export 60 per cent of the incremental output could not suitably be adapted to apply to cases of establishment of new subsidiaries.

Bench-Mark Level

Whatever approach the government intends to adopt, it needs to take a comprehensive view of the effort to give an export orientation to its policies towards foreign investment. The policy of permitting new export-oriented foreign subsidiaries should be consistent with that of allowing export-oriented expansion of existing subsidiaries. As a starting point, the government could decide the extent of foreign shareholding it would allow if a new foreign subsidiary agreed to export its entire output. Once this is determined for a subsidiary exporting its entire output at, say, 70 per cent of total equity, which thus becomes a sort of bench-mark level, the permissible percentage share of foreign equity for others undertaking less than 100 per cent export commitments could be determined. The bench-mark level could be different for different types of commodities, depending upon export prospects, current stage of domestic production, type of production technology and the nature of export marketing arrangements to be provided by the foreign investor. For less sophisticated products, like sewing machines, the bench-mark could be put below 70 per cent while for certain sophisticated electronic items it could be placed anywhere between 70 and 100 per cent.

Once the government decides on a set of rules, it needs to consider why they should not also apply to already established foreign subsidiaries seeking capacity expansion. The existing foreign subsidiaries would thus be able to choose whether to satisfy the provisions for export of a proportion of their incremental output or subject themselves to the government's scheme of gradual "Indianisation" of foreign equity. Clearly, those subsidiaries which are unable or unwilling to comply with either the export or the Indianisation stipulation should not be allowed to expand capacity.

TAMIL NADU

Kamaraj's Return?

THE panel which was charged with looking after the interests of the workers of the Simpson group of companies in Tamil Nadu has been a flop. Consisting of representatives of INTUC, AITUC, HMS, CITU, the Congress(O) and the DMK, the panel had been set up in January as part of the terms of settlement of the strike of 16,000 workers belonging to 22 companies of the group. It was to hold the fort till new office-bearers of the workers' union were elected. However, from the outset, the panel was riven by differences among the representatives of the CITU, the DMK and the rest. As pointed out in these columns ("Take-over of a Strike", January 22, p 145), none of the parties represented on the panel had any following among the Simpson workers or had made any contribution to the very successful three-month long agitation of the workers which ended in the ouster of the DMK from control of the union. The opposition to the government-sponsored DMK take-over of the union had been organised by R Kuchelar, the leader of the Cingleput-Madras Trade Unions Integration Council and a former member of the CPI(M), whom the central trade union organisations, however, managed to keep out of the highly-publicised negotiations with the government as well as the six-member panel.

Predictably, the panel was able to exercise no influence over the workers and clashes continued between a handful of workers loyal to the DMK and those led by Kuchelar. All that the panel, with the exception of the CITU nominee, who for his own political reasons feigned sympathy for the Kuchelar-led workers, could do was to blame the DMK as well as so-called "extremist elements". As a result, though the workers' strike had been formally called off on January 12, not all the units of the group returned to normal working. In fact, the Simpson management had announced the indefinite closure of the group's engineering units in the Sembiam estate and its main plant on Mount Road from February 27. In the meantime, the INTUC representative of the six-man panel resigned and the panel as a whole decided to dissolve itself on March 1. The motives of the members of the panel, particularly the nominees of the INTUC, and the AITUC and the HMS, become clear from the fact that though the panel had been charged with holding early election of the office-bearers of the workers' union, it soon decided that elections could be held only after a long period of "cooling off". This was a transparent ploy to win time for the unions represented on the panel to build up support among the workers. The CITU nominee on the panel has said that the other members were bent upon preventing the holding of the union elections.

Thus the present position is that while the DMK has been ousted, the bid by the central trade union organisations to take over the Simpson union has been frustrated for the moment.

The DMK has taken some other severe knocks in the trade union field. It has had to face the massive strike of textile workers in Coimbatore, which later spread to all over the state. Here again it was shown that the DMK had no control over industrial labour. The HMS played a major role in Coimbatore in organising the highly successful strike. Eventually the Chief Minister has had to browbeat the Southern India Millowners' Association to accept payment of interim relief equal to 10 days' wages. The state government has also given commitments about the take-over of the six closed mills and in the meantime the Chief Minister has sanctioned Rs 5 lakhs from the Chief Minister's relief fund for the unemployed workers of these mills.

Political Offensive

Significantly, the offensive on the trade union front against the DMK has come just when a parallel offensive is being mounted against it on the political plane. This began innocently enough with the Congress(R) insisting on putting up a candidate against the DMK in the by-election from the Ariankuppam constituency to the Pondicherry assembly. The seat had belonged to the DMK, but the Congress evidently decided to provoke a confrontation with the intention of forcing the DMK to end the alliance between the two parties. This was achieved when the Chief Minister and DMK chairman, K Karunanidhi, announced after a cabinet meeting on February 17 that he was calling off the one-year old poll alliance between the two parties. The decision was later ratified by the party executive. But though it was the DMK which took the decision to formally break the alliance, the offensive had been taken by the Congress and is part of the party's new political strategy in Tamil Nadu. The architect of this strategy is not so much the Union Planning Minister, C Subramaniam, hitherto the Prime Minister's party-manager in Tamil Nadu, but the Union Steel Minister, S Mohan Kumaramangalam.

The efforts of the Congress to build up a party organisation in Tamil Nadu have completely failed and this is what has led to the change of strategy. The central leadership of the party is veering round to the view that the only way to establish the party in the state would be to get Kamaraj to return to the fold with his large following and strong party organisation. Kamaraj is evidently not averse to the suggestion any longer. His links with the all-India Congress(O) are practically nil. He has carefully avoided campaigning for Congress(O) candidates in the assembly elections in any of the states. Also, he has dropped all criticism of the Prime Minister from his public speeches. He has also refused to lend support to the DMK's criticism of the Centre or its demand for state autonomy. Instead, he has recently been on an intensive tour of the state during which he has bitterly criticised the DMK for its corrupt administration and has called upon all political parties in the state to unite to oppose the 'autocratic' rule of the DMK. Kamaraj has also supported the Congress candidate in the Pondicherry by-election.

The 'progressives' in the Congress have always sought to make a distinction between Kamaraj and the other leaders of the Congress(O), claiming that the former was a radical, in tune with the Congress's socialistic policies. The Prime Minister may not have much use for such ideological considerations, but she seems to recognise that a rapprochement with Kamaraj is necessary for achieving her objective of establishing a base for her party in the only state where it today lacks one. In the limited framework of Tamil Nadu politics, it is thus Kamaraj who, by keeping alive his party as a major force, holds the upper hand and, initially at any rate, the Prime Minister may have to hand over complete charge of the Congress in the state to him.

How the course of politics in the

state will shape if and when Kamaraj takes over the state Congress, one can only speculate about at this stage. A major objective of the Congress would of course be to force an election to the state assembly before 1976, when it is normally due. The CPI, which now has an alliance with the DMK, may be counted upon to change sides promptly at New Delhi's behest. But weaning away the DMK's allies will not help much, considering the party's massive majority in the assembly. To topple what appears at the moment a government stolidly in power, efforts would be made to create dissensions within the DMK and to this end the powers of patronage of the central government would no doubt be brought into full play. For all the monolithic appearance of the party, it is far from certain that the leaders of the DMK, who have on the whole been only too willing to be corrupted by power, will be able to resist the blandishments.

ADVERTISING

Lessons for India from the US

Sanat Lahiri

WHAT with Nader's raiders and the watchful eyes of the Federal Trade Commission (FTC), advertising men in the USA have not had a dull moment in the last many months. In fact, the situation has hotted up so much in recent weeks that the citadels of Madison Avenue give the impression of battered boats after a storm. "The whole business", said the head of a US advertising agency, "is a vast confusion".

As is well known, generally, the difference between the brands in the consumer goods field, be it soups, soaps or breakfast cereals, is mostly marginal and often superficial. But this difference, often a "minuscular difference", provides the life blood of advertising. So far so good, but the high-powered creative guys of Madison Avenue have been making such a mountain of this "molehill" over a period of time that in the face of a mounting tide of public criticism and consumer resistance, the US government, through the FTC, had to take punitive action. FTC and the consumer have been patient enough and admen have had sufficient warning over the years not to over-exaggerate claims and therefore be accused of deception. Gentle warnings and requests led to minor changes only; all these years no major reform was evident. The high cost of public confidence reached such unprecedented proportions and the resultant public condemnation was so vociferous that the US government agencies were forced to curb the advertisers' enthusiasm for exaggeration.

In an unprecedented action, the FTC has proposed that the four largest cereal makers of the USA — General Mills, General Foods, Quaker Oats and Kellogg — be broken up into smaller companies. Three of these manufacturers were accused by the FTC of falsely advertising cereals as body builders and as aids to weight control. The FTC also claimed that these four giants, with their multi-million dollar advertising campaigns, were keeping out competitors and inflating prices. We have not heard the last in this battle between a powerful government agency and these large manufacturers. A long legal squabble is likely to follow. Whatever may be the outcome, this case raises a number of issues for admen in the USA and elsewhere.

The FTC has dropped two other equally powerful and damaging bombshells. One was in the shape of a proposal that radio advertisers and commercial broadcasters should give equal time to critics of such broadcasts to make counter-claims. As is well known, such a requirement already exists in regard to advertisement of cigarettes. As a publication remarked, "Conceivably this could lead to ecologists taking to the air to punch holes in auto and gasoline ads, chemists knocking down mouthwash promotions — and a flock of advertisers fleeing the home screen"!

The most startling thrust of the FTC, however, is the call to advertisers using promotions that the FTC considers it deceptive to run "corrective" advertisements admitting the deception and setting the score right before the public. In fact, one such "corrective" television commercial was recently screened in the USA, where a manufacturer had to admit that "eating Profile Bread will not cause you to lose weight". The contrary was claimed in the earlier "deceptive" commercial produced by Ted Bates, one of America's most successful and respected advertising agencies, which originated and made the now famous concept of USP a by-word amongst admen all over the world! Now Rosser Reeves may have to write a fresh *tour de force* on Unique Selling Non-propositions and the New Reality in Advertising.

These government regulations could not have come at a worse time. The advertising business in the USA is in the throes of a recession, causing loss of revenue and profits, and retrenchment of personnel by advertising agencies. But, objectively speaking, one must admit that the US public and government reacted only after much and continued provocation.

The US advertising industry's initial, and predictable, reaction has been to be more cautious. Many advertising agencies are now clearing all promotions with their lawyers first. Why it was not done all these years, of course, baffles one. Advertisers and advertising agencies are also dropping *specific* product claims. Had admen behaved more responsibly, there would have been no need to avoid specific claims now — especially claims that are true and demonstrable in consumer terms.

Implications for Indian Advertising

The repercussions of these measures will not be limited only to the frontiers of America. Rumblings about the unbridled abuse of advertising have been heard for some time in many developed, and increasingly, in developing countries like India. The developments in the USA have some pointed lessons for us. The question before us is not only a legal one but a moral and ethical one. We must accept that in a democracy, public reaction and resentment to unprovable or deceptive advertising claims must eventually lead to government intervention and regulation. That such restriction will "dry up" the creativity of a handful of ideasmen, copywriters and visualisers is unlikely to cause any loss of sleep to the government and the public!

We must also recognise the emergence of consumerism or the power of the consumer. We cannot take the consumer for granted. Truth in advertising can no longer be a casualty. Finally, advertising men must understand it clearly and unmistakably that self-regulation is the best form of regulation.

THAILAND

Collaborator in the War

Harish Chandola

THE Indochina war, particularly the air war, could not be continued at its present level without the enormous assistance Thailand provides the United States in its aggression against all the four Indochina states—Laos, Cambodia, North and South Vietnam. If the US were denied this assistance, the Laos war, for one, would come to an abrupt halt and the intensity of the war in the other three states would be greatly reduced, because it is from Thailand that the US conducts most of its bombing raids which have so far killed over a quarter million civilians in Indochina. In the past three years, over three million tons of bombs, equalling the destructive power of 150 Hiroshima-type atom bombs, were dumped on Laos alone, almost entirely by Thai-based American planes.

Crucial to the continuance of the air war are the six large US air bases in Thailand. They are at Udorn, Ubon, Utapao, Takli, Nakhon Phanom and Korat, from where B-52 strategic bombers and other American warplanes take off to attack Laos, the two Vietnams and Cambodia. Udorn is not only a big air base but also the headquarters of the 333 Command which controls all the US 'Special Forces' operating in Indochina.

Thailand has also become a big staging area for the US war in Indochina; in Thailand there are various schools to train officers and 'advisers' of the Vientiane (Laos) army and depots for storage of arms, ammunition and other war materials. There are also several rest, recreation and treatment centres for American fliers and other US personnel.

While the US seeks to create the impression that it is trying to end the war by withdrawing its ground troops from Indochina, it is in fact pushing Thailand deeper into the war. On January 19, the Thai authorities signed an agreement with the Phnom Penh government, called "Border Security Treaty", which enables regular Thai troops to enter Cambodia to aid the hard-pressed Lon Nol regime. In neighbouring Laos, Thai mercenaries have been engaged in the fighting for some time. The Lao Patriotic Front Information Office in Hanoi recently held a press conference at which foreign correspondents were shown identification cards, uniforms, amulets and documents taken by Patriotic Front forces in their victorious battles against Thai troops in Laos last December.

The Americans have drastically exploited Thai manpower, especially the 10 million people in north-eastern Thailand, to serve their aggressive war in Laos in implementation of the 'Nixon Doctrine'. Dozens of infantry and artillery battalions of the Thai army and many commando units have been illegally sent to Laos to occupy strategic positions all over that country. As shown by the US Senate Foreign Relations Committee, Thai troops operating in Laos now total more than 30,000. The presence of Thai troops in Laos and their behaviour there is sowing the seeds of hatred and enmity among the Lao people towards the Thais. The Thai troops are totally indisciplined and have killed, looted and raped at will.

The Thais have been waging war in Laos in gross violation of the Geneva Agreements on Indochina of 1954 and the Geneva Agreement on Laos of 1962 to which Thailand is a signatory. As far back as 1960, the Thais openly sent their troops into Laos and coordinated this action with the forces of the Laotian rightist leader, Phoumi Nosavan, in order to attack Vientiane, the capital of Laos. From 1962 onwards, Thailand was turned into a military base and a springboard for the US to attack Laos and the other Indochina states.

When Thai officials are asked about the presence of their troops in Laos in violation of the Geneva Agreements, the evasive answer they give is that those Thai nationals (fighting in Laos) have chosen on their own to work for the Laotians. But then the officials are unable to hide their complicity when they add that by battling the communists in Laos, "those patriots" are helping to ward off the the threat against Thailand.

Of course, it is the US which pays for the Thai troops in Laos. It was revealed in the US Senate Foreign Relations Committee that at a certain time the US was spending $ 35 million towards paying the Thai mercenaries in Laos.

Thai involvement in the Laos war is still increasing. Thai battalions suffered heavy casualties in the recent dry season offensive of the Lao Patriotic Front in and around the Plain of Jars. The ranks of nearly ten Thai battalions were greatly depleted in mid-December, 1971, in the fighting around the CIA base of Long Cheng. More Thai troops are therefore being sent to Laos to refurbish those battalions and bring them upto strength. Reports are also current that the Thai division of 10,000 men which had served in South Vietnam is about to be moved to Laos to strengthen the crumbling US-Vientiane defences.

The Lao Patriotic Front has warned the Thai government that if it does not withdraw all Thai troops from Laos and stop its military intervention in Laos and Cambodia, it will have to bear full responsibility for the serious consequences of its acts. Guerilla forces operating in north-eastern Thailand have stepped up their activities to emphasise this warning. Recently, 16 Thai policemen were killed in a guerilla attack on a 'special operations base' in a remote northern district of Thailand. Last month, the guerillas staged several attacks, including one on a US air base. In southern Thailand several Thai policemen have been killed by the guerillas, including the entire police escort of Prime Minister Thanom Kittikachorn during his southern tour in January. If Thai involvement in the Indochina war increases further, guerilla actions inside Thailand will inevitably be stepped up, which is likely to lead to the full-fledged extension of the Indochina war to Thailand.

FCI Sells Knowhow

THE Fertiliser Corporation of India, recently entered into agreements for the sale of knowhow of a few of the instruments developed by its Planning and Development Division to various manufacturers. The knowhow will be commercially exploited for the first time, by these manufacturers, under the guidance of the P and D Division.

An agreement for the sale of knowhow for a solid state alarm annunciator — the first of its kind in India and made completely from indigenous components — has been entered into with Instrumentation, Kota, a Government of India undertaking. The instrument is ideally suited for the chemical process industries, power plants, steel plants, and a variety of other industries.

BANGLADESH

Aftermath of Stagnation

P C Verma

DURING the last 24 years, while Bangladesh was a part of Pakistan, its economy stagnated. The economic policy pursued by the central government of Pakistan kept it economically backward. An analysis of the manner in which the economic policy of the central government of Pakistan was pursued may be necessary to assess the prospects for the future development of the now independent Bangladesh.

When Pakistan was created, both its wings, West and East, were economically backward. Subsequently, however, while the economy of West Pakistan developed rapidly, the economy of Bangladesh lagged behind. Over two decades, 1949-50 to 1969-70, the per capita income of Bangladesh could increase at an annual rate of hardly 0.7 per cent. In fact during the fifties, the per capita income of Bangladesh declined at an annual rate of 0.3 per cent. On the other hand, over the two decades, the per capita income of West Pakistan increased at an annual rate of 2 per cent. In 1969-70, while the per capita income of Bangladesh was Rs 399 only, the per capita income of West Pakistan was Rs 500. The per capita income of Bangladesh thus lagged behind that of West Pakistan by Rs 161, i e, by 33 per cent.

The structure of the Bangladesh economy also remained backward. The agricultural sector continued to dominate the economy. Even by 1964-65, the share of the agricultural sector in gross domestic product was as much as 58 per cent, as compared to only 40 per cent in West Pakistan. The industrial sector failed to expand significantly in the economy. The share of the industrial sector, comprising manufacturing and construction, was only 12 per cent in Bangladesh. On the other hand, the share of the industrial sector in West Pakistan was higher at 20 per cent. The manufacturing sector, the crucial sector in industrialisation, remained insignificant in Bangladesh: the share of the manufacturing sector in gross domestic product was 7 per cent only in Bangladesh compared to more than 14 per cent in West Pakistan. Within the manufacturing sector, the large-scale manufacturing sector contributed 5 per cent to gross domestic product of Bangladesh compared to 9 per cent in West Pakistan.

The levels of consumption also remained low in Bangladesh. Per capita consumption of milk, fats, and oils, were extremely low in Bangladesh. Even by 1969-70, the per capita consumption of milk was 21.04 lb, of fats and oils 6.44 lb, and of sugar 5.60 lb — hardly 10 per cent, 45 per cent, and 35 per cent, respectively, of the corresponding consumption levels in West Pakistan. The consumption level of cotton cloth was also low. In 1969-70, the per capita consumption of cotton cloth in Bangladesh was 10.86 yd, which was 20 per cent lower than the corresponding consumption level for West Pakistan.

Developmental Expenditure

The policies of the central government of Pakistan, with regard to developmental expenditure, foreign trade, interregional trade, and foreign aid, had an adverse impact on Bangladesh.

Developmental expenditure, which determined the generation of production capacities, was extremely limited in Bangladesh. During the two decades, 1950-51 to 1969-70, the developmental expenditure, in both public and private sectors, was Rs 31,303 million, compared to Rs 62,813 million in West Pakistan. That is, the developmental expenditure in Bangladesh was hardly 50 per cent of that in West Pakistan.

The small size of developmental expenditure in Bangladesh was true for both the public and the private sector. The private sector developmental expenditure, in the two decades 1950-51 to 1969-70, was Rs 10,934 million in Bangladesh compared to Rs 31,986 million in West Pakistan — i e, hardly one-third of that in West Pakistan. The small size of private sector developmental expenditure in Bangladesh was largely due to the absence of a physical infrastructure and other such facilities. In fact, during the first decade, 1950-51 to 1959-60, not all of the domestic savings of even the Bangladesh economy were invested within the economy. During this period, while total gross savings were Rs 8,240 millions, gross investment was only Rs 6,720 million.

Moreover, the public sector failed to assume the leading role it could have in Bangladesh, thus failing to stimulate the private sector. During 1950-51 to 1969-70, the public sector developmental expenditure was Rs 20,369 million only, compared to Rs 30,827 million in West Pakistan. The public sector developmental expenditure in Bangladesh was lower by 34 per cent than in West Pakistan. In fact, at per capita level, the discrimination against Bangladesh was clearly severe. The per capita public sector developmental expenditure of Bangladesh was hardly 50 per cent of that of West Pakistan.

The public sector developmental expenditure comprised provincial government and central government expenditures. The smaller size of public sector development expenditure in Bangladesh was caused by severe regional discrimination in the central government's expenditure. Nor was there much difference regarding the provincial government's level of expenditure. During 1950-51 to 1967-68, the development expenditure of the provincial government was Rs 12,006 million in Bangladesh and Rs 13,675 million in West Pakistan. However, the central government development expenditure, during the same period, was Rs 3,440 million in Bangladesh, compared to Rs 12,118 million in West Pakistan. Thus central government expenditure in Bangladesh was less than one-third of that in West Pakistan. The severe discrimination against Bangladesh in the allocation of central government developmental expenditure was reflected in the smaller size of public sector developmental expenditure.

In Bangladesh, the public sector development expenditure on physical infrastructure, too, was neglected. During almost the entire three Plan periods — from 1955-56 to 1967-68 — public sector development expenditure on physical infrastructure was Rs 6,579 million in Bangladesh, compared to Rs 15,744 million in West Pakistan. The public sector development expenditure on physical infrastructure facilities failed to expand adequately in Bangladesh. Generation of power, necessary for the expansion of the various other sectors, remained severely insufficient. By 1969-70, production of electricity in Bangladesh was 1,300 million kwh. In West Pakistan, on the other hand, electricity generation was 6,700 million kwh. Production of electricity in Bangladesh was thus hardly one-fifth of that in West Pakistan.

Direct financial assistance to the private sector in Bangladesh was inadequate. The centrally-sponsored financial corporations, the Industrial Credit and Investment Corporation, the Industrial Development Bank, the Agricultural Development Bank, and the House and Building Finance Corporation, pursued discrimination in financial allocations. During the entire period, 1950-51 to 1969-70, the financial assistance of centrally-sponsored financial corporations was Rs 2,451.7 million to the region of Bangladesh, compared to Rs 3,793.7 million in West Pakistan. The financial assistance to the private sector in Bangladesh was smaller by 34 per cent of that given to the private sector in West Pakistan.

The economy of Bangladesh was in fact exploited through the mechanism of foreign trade. Bangladesh always exported more than West Pakistan. Jute was the principal commodity of export. During 1950-51 to 1969-70, exports of Bangladesh were of Rs 23,303 million. But the export by West Pakistan amounted to Rs 19,476 million only. Thus exports of Bangladesh exceeded those of West Pakistan by Rs 3,827 million. Although Bangladesh provided larger export earnings, the central government discriminated against Bangladesh in its import allocations. The instrument of import licence was used for this purpose. Exporters in Bangladesh, who deposited foreign exchange, were given rupees. The foreign exchange, however, was mostly sanctioned to importers of West Pakistan. During the entire period, 1950-51 to 1969-70, while imports of Bangladesh were around Rs 19,261 million, imports of West Pakistan were as large as Rs 41,918 million — i e, the imports of Bangladesh were lower by Rs 22,657 million, or by 54 per cent, of the imports of West Pakistan. The smaller allocations of imports to Bangladesh inhibited the expansion and establishment of projects in both the public and private sectors. Foreign complementary resources necessary could not be adequately imported. The discrimination in this regard was more rigid in the import of capital goods. During 1951-52 to 1964-65, imports of capital goods — including raw material for such production — were worth Rs 5,426.5 million only into Bangladesh compared to Rs 13,088.6 million into West Pakistan. Imports of capital goods into Bangladesh were therefore hardly 41 per cent of the imports of such goods into West Pakistan.

Interregional trade too was an instrument for the economic exploitation of Bangladesh. West Pakistan imported raw materials and certain goods which were not available within its economy from Bangladesh. Raw materials, such as wood and timbers, were imported in addition to such primary products as betelnuts and spices and others. West Pakistan also imported tea, jute goods, paper and paper boards, and matches. The total imports of West Pakistan from Bangladesh, between 1950-51 and 1969-70, were worth Rs 13,180 million. Apart from draining away the raw materials and other commodities from the East, West Pakistan also supported its own industries by exporting goods to the Bangladesh market. During 1950-51 to 1969-70, total exports of West Pakistan to Bangladesh aggregated Rs 17,086 million. The export of West Pakistan to Bangladesh comprised cotton piecegoods, drugs and medicines, rape and mustard oils, manufactured tobacco, etc.

Adverse Impact of Trade

The impact of this international and interregional trade was adverse on the Bangladesh economy. During the fifties, the balance of international and interregional trade was characterised by a surplus, which resulted in a net outflow of resources from Bangladesh. Between 1950-51 and 1959-60, the net outflow of resources from Bangladesh was of Rs 1,814.6 million. On the other hand, during the same period, West Pakistan had net inflow of resources, in the form of a trade deficit of Rs 2,465.0 million. Since, for Pakistan as a whole, during the same period, the net inflow of resources through trade deficit, was of Rs 650.4 million, only, West Pakistan received not only this inflow but also the outflow of resources from Bangladesh. Subsequently, during the sixties, although the balance of international and interregional trade of Bangladesh was also characterised by deficit, it was relatively far smaller than that of West Pakistan. From 1960-61 to 1969-70, the net inflow of resources to Bangladesh, through trade deficit, was of Rs 4,610.7 million — compared to Rs 13,141.2 million to West Pakistan. The net inflow of resources to Bangladesh, during this period was hardly one-third of that to West Pakistan.

The central government pursued a policy of regional discrimination in foreign aid too which was required to accelerate economic development. Since not all the aid was specified for particular projects, the central government was able to allocate according to its own will. In this, it failed to consider adequately the requirements of Bangladesh. During the fifties (1950-51 to 1959-60) the central government allocated foreign aid equivalent to Rs 930 million only to Bangladesh, compared to Rs 4,080 million to West Pakistan. The foreign aid received by Bangladesh was hardly one-third that received by West Pakistan. Subsequently, also, the situation did not improve. Indeed, the relative allocation of foreign aid to Bangladesh must have deteriorated. For, the balance of international and interregional trade of Bangladesh, which roughly indicates the trend in foreign assistance, was hardly one-third that of West Pakistan. Further, the allocation of foreign exchange, in the form of loans and grants, at the government level was marked by regional discrimination. During two decades, 1950-51 to 1969-70, while Bangladesh received foreign exchange of Rs 1,651.9 million only, West Pakistan received Rs 2,758.5 million. Bangladesh received foreign exchange loans and grants at 40 per cent less than that received by West Pakistan.

Since Bangladesh has now emerged as an independent country, the prospects for the development of its economy must be stated. First, Bangladesh can now adequately develop its physical infrastructure facilities to provide the necessary external economies to both public and private sector projects. Secondly, Bangladesh can now utilise the whole of its export earning for its own economic development. Further, a more suitable direction of trade can be pursued so as to increase the foreign exchange earnings. The loss from not having trade with some countries can be replaced by gains through trade with them. Thirdly, the structure of imports can be suitably modified so as to meet the necessary foreign resource requirements of the domestic economy. Fourthly, trade with West Pakistan can be replaced by trade with other countries, which may bring in foreign exchange. Also, the structure of trade, which in the past prevented the expansion of domestic industries can be drastically changed to afford domestic industries the necessary protection for growth. Finally, Bangladesh will be able to directly negotiate for foreign aid and to utilise it consistently with its developmental priorities. The prospects of a higher level of development for Bangladesh are therefore bright.

The data referred to in this note are based on compilations from the following sources: (i) Five-Year Plans, Review of Second Plan, Mid Review of Third Plan, Planning Commission Pakistan; (ii) Monthly Statistical Bulletin, various issues, Pakistan; (iii) Pakistan Economic Survey, 1969-70; (iv) Pakistan Statistical Year Book, 1968; (v) Statistical Digest of East Pakistan, 1966.

Taming the Army in Pakistan

Dhananjoy

AS expected, Pakistan is going through a phase of crises and convulsions. And there is no light yet at the end of the tunnel which Bhutto has entered. What precisely the latest changes in the Pakistani armed forces mean is anybody's guess and many of the theories propounded in the Indian Press may be more in the nature of expression of the instinctive distrust and suspicion of anything that takes place across the borders. All that one can say with any degree of certainty is that the political instability in Pakistan continues and that many more dramatic developments could take place before the new Pakistan finds its feet as a state.

So far Bhutto has been unable to evolve a democratic political system for Pakistan. Apparently, he has yet to sort out the most serious and immediate problem that he has been facing since his rise to power, namely, the redetermination of the role and place of the armed forces in the political life of Pakistan. The great paradox in Pakistan is that the anger and resentment against the army is so acute precisely at a time when the state has been cut down to a size which is just what the army could have hoped to manage. Like many West Asian states, Pakistan could in some ways appear as an excellent playground for small-time dictators and military leaders; this awareness must be prevalent among the armed forces. On the other hand, so great has been the disaster that the army has brought upon Pakistan that it is difficult for it now to seek complete power and do away with all pretensions of facilitating some movement towards popular rule. Bhutto has got to manipulate this feeling against the army if he has to consolidate his own position in Pakistan and emerge as a secure political leader. Apart from his personal problems, for purposes of political stability in Pakistan a curtailment of the role of the army has become essential. The armed forces of Pakistan are in all probability the most determined protector of the established interests in that society and no meaningful programme of social change can be ushered in so long as the army remains in command.

The root of the problem in Pakistan is that during the decade of the Ayub regime, a fairly strong combination of forces had come into being, providing, superficially, a great deal of stability and progress to Pakistan. The big landlords, the twenty-two families, the top brass of the army, the senior civil servants and a host of politicians like Bhutto himself had created a political cartel which showed some results in terms of political stability and economic growth. By ignoring problems of distributive justice as between the various regions of Pakistan and as between its various social strata, this cartel had also created stupendous problems for the country, resulting ultimately in the growth of a movement for national self-determination in Bangladesh.

The essence of Pakistan's problems now is that there are no well organised democratic forces which can help the smooth demolition of the old structure and erection of a new one. Such political forces as there are in West Pakistan are on the face of it incapable of pulling together. Yet only by doing so can they hope to curtail the power and authority of the army and the bureaucracy.

If Bhutto is serious about his proposed radical reforms in Pakistan, his task is not merely to weaken his adversaries within the power elite through new permutations and combinations at the top but also to mobilise powerful political forces outside the existing ruling structure to effectively demand economic and political reforms in Pakistan. It appears as though Bhutto is not unaware of the weaknesses of the armed forces and he is particularly competent in making use of the latent rivalries among the various services of Pakistan to weaken the military as a whole. If the latest developments in Pakistan had taken place at Bhutto's behest and if he can follow it up by cutting the size of the army, there is no reason why the present crisis in Pakistan cannot be taken advantage of to initiate further changes. But these are all big ifs. The thing to watch is whether Bhutto permits a free interplay of political forces and encourages the growth of new political values and attitudes in Pakistan. His intention of performing a major surgical operation will remain a mirage unless he succeeds in creating out of his own party and out of others in Pakistan powerful forces for social change.

Meanwhile, Indians can do worse than remain aloof from the developments in Pakistan. It is in India's interest that a structure of suitable peace in this region is evolved and that healthy political changes take place in Pakistan. There is not much that India can do to bring about such changes, but it can certainly adopt a stance which denies to the oligarchy in Pakistan use of this country as a factor in the domestic politics of their country. This implies a posture of studied aloofness on our part and repeated reiteration of our desire to live in peace and friendship with Pakistan. At any rate, the least we can do is to refuse to permit our official media of mass communication to be used to put the worst possible interpretation on whatever happens in Pakistan. The real test of the maturity of a government is how it behaves in victory.

March 4

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

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Emergence of the Congress

Sudhir Chandra

The Emergence of the Indian National Congress by S R Mehrotra; Vikas Publications, 1971; pp 461; Rs 60.

TILL about a decade back Indian nationalism used to be treated as almost co-extensive with the Indian National Congress. The significant events necessarily preceding it rarely received more than an introductory survey. Application of serious research techniques and efforts in order to understand the nature and course of Indian nationalism, however, has underlined the importance of analysing the background to the Indian National Congress. The result has been a series of books attempting a comprehensive account of the developments that eventually paved the way for the Congress. Mehrotra's is the most exhaustive work in this series.

Never before have so many facts been offered about the organisations that sprang up in different parts of the country. These constituted an essential experiment in political articulation making possible the consummation, in the Indian National Congress, of the increasingly felt need for a national political association. All these, whether located in India or in Britain, are described with a remarkable wealth of details. The Muslim attempts at exclusive political organisation, however, do not receive the same thoroughness of investigation which characterises the major part of the volume under review. Perhaps this accounts for the facile generalisation that the post-1857 official inclination to favour the Muslims in education, recruitment and nomination to the councils had the result, intended or unintended, of encouraging them in adopting a separatist stance. This is a facile generalisation because it ignores the sociological reality of India after 1857. Viewed in that context the official inclination to favour the Muslims would appear more as an effect of objective forces; as a cause of subsequent developments it would appear to have possessed just marginal propulsion. This, it may be emphasised, is in reference only to the nineteenth century. Which is to say that in point of time the *adoption* of a separatist stance was not much affected by the official attitude towards the Muslims. It is also presumed that a sober scholar like Mehrotra is not arguing backward from the twentieth to the nineteenth century.

To enter into disagreement on a point that forms only an insignificant part of the book is not to belittle its importance as a contribution to the writing of modern Indian history. Mehrotra's forte is his conscientious concern for thorough inquiry. This may seem a small virtue to the modern scholar whose sole obsession is with analysis or interpretation; a strange phenomenon that advances in the other social sciences make the Indian historian forget, in his eagerness to be accepted as a sound researcher, is that a sound body of facts is the first requisite of analysis. One can only hope that the 'mod' vultures on the Indian academic firmament do not fall upon Mehrotra for having offered them 'conventional political history' with 'plenty of facts'.

How comprehensive Mehrotra's survey is becomes evident from the fact that, barring an article in *The Indian Economic and Social History Review*, he is the first person to have written about the Western India Association that was founded by a splinter group from the Bombay Association. It is surprising that in spite of its importance for understanding the constellations of interests in later nineteenth century Bombay, a leading centre of political activities in India, none of the scholars working on the origins of Indian nationalism had been so much as aware of the existence of the Western India Association. And this happened in spite of the fact that every contemporary newspaper of western India wrote a good deal about the Association. Obviously, the earlier scholars had failed to comprehend the value of newspapers for studying the growth of political consciousness. It is a refreshing contrast to find Mehrotra admitting in the Preface: "I have drawn heavily on the contemporary press and in the process become more and more convinced of the truth contained in Macaulay's remark: 'The only true history of a country is to be found in its newspapers' ".

"The Emergence of the Indian National Congress" constitutes a landmark in the conscious reconstruction of modern Indian historiography. This is the first stage of this reconstruction: the culling and correlation of relevant facts from all possible sources. A synthetic, interpretative view has of necessity to wait for a considerable while.

Socialist Thought in India

R Srinivasan

Socialism and Communism in India by Sankar Ghose; Allied Publishers, Bombay, 1971; pp 468; Rs 25.

WHETHER one likes it or not, socialism and its variants are going to be dominant in India for a long, long time. No Indian citizen can afford to be ignorant about the issues involved in any theory of socialism, and any book that helps in the understanding of socialism and communism is valuable. Looked at from this point of view, the book under review is valuable for several reasons. Firstly, it is lucid and clarity of writing is its great virtue; the narration is pellucid and this is particularly commendable, for writings on socialism can be cliche-ridden and jargonised. Secondly, its comprehensive treatment is again striking. It covers all aspects of socialist thought from extreme leftist Marxism to M N Roy and Gandhian socialism. These two qualities along with its scrupulous fairness in presentation and the citations from original sources will all make it widely used in colleges and universities as a text-book. Its perspective is historical and the analysis is mainly of ideology and theory. Official documents are quoted and there are no comments or analyses on the processes of politics.

While these are the main attractions of the book, it omits some important questions regarding socialism. Indeed, they are so fundamental that one presumes that the author perhaps is developing them for a later volume. In the first place, the question about the relevance of socialism in the context of poverty, underdevelopment and attempts at modernisation has to be faced squarely. Obviously, the author does believe that some sort of socialist solution is inevitable in a country like India and in his very first chapter, he has gone to some length to point to the attempts

of economist-statesmen like Ranade to foster collectivism as a solution for India's economic problems. Also, he stresses the deep impact of the Russian revolution and the Bolshevik experiments on Indian leaders. He also speaks of the pragmatic socialism of Nehru. Though, he touches upon this question at a number of places, he does not formulate it consistently.

Again while writing on the economic context of socialism, which he does at some length, he dwells on the issues mainly historically. The problems of the peasantry though touched upon is comparatively slighter than that of urban labour — and the great challenge to the establishment will issue from this quarter. Economic privation in the rural areas, the flaunting of affluence, and the gradual seduction of the administration in the coarser values all are fraught with potent consequences. The rural scene could have been looked into with advantage.

In a few places (p 200, for instance) the author touches upon attempts made to develop an indigenous theory of socialism (*samyavada*). Obviously, as in Britain, native sources had as much to do with the development of theories of socialism as had the writings of Marx. Yet in India, there has been a total failure to formulate any consistent socialist thinking based mainly on native traditions. The few practitioners who attempted to do this could erect no worthwhile system at all. Why this failure? In India, we have had no great theorists of Socialism comparable to Mao, Kolackawski or Djilas. Why this failure at the theoretical level? And where will socialism be going in the future India? These are some questions for which one hopes for an extended treatment. But these are not the preoccupations of the author.

While the author has a detailed and fairly thorough account of Gandhi's thinking on socialism, there is no systematic analysis of the ideas of Ram Manohar Lohia who perhaps has remained an important theoretician of socialism in India, however much one may disagree with him. This and the negligence of any detailed consideration of the SSP is indeed a serious lacuna in the volume.

Though the book does stand as a good analysis of socialist and communist thinking in India, one cannot but compare it unfavourably with his earlier book, "The Western Impact on Indian Politics".

SPECIAL ARTICLES

Minimum Wages in the Construction Industry

S N Guha Thakurta

The importance of provision of a minimum wage for construction workers can hardly be overemphasised, especially in a region like Tripura, where minimum wage provisions have not yet been enforced. An underdeveloped region such as Tripura offers very limited scope for employment in other industries and construction workers are particularly vulnerable because they are not organised.

While organised workers can bargain to improve their conditions of work, their counterparts in construction and similar other industries have to look to the government for safeguarding their interests.

ALTHOUGH two decades have elapsed since the report of the Committee on Fair Wages was published, the 'fair wage' still remains a far cry. So, too, the 'need-based' minimum wage. The existing minimum wage rates do not seem to be linked to the cost of living of the workers, nor do they seem to have any correspondence with the prevailing wage rates. The existing minimum wage provisions are not effectively implemented. In many areas, the prevailing wage rates are lower than the prescribed minimum. It would appear from the following discussion that even the first upward revision of the minimum wage, to Rs 2.40 per day for an unskilled labourer in the building and construction industry, recommended by the Minimum Wage Committee (Central Sphere) in December 1969, is far below any 'need-based' minimum wage.

If workers are to play their role in the fulfilment of planned targets, they must be assured of at least adequate food, shelter, and clothing. Although the First Five-Year Plan assured the workers that these basic needs would be met, in reality much is yet to be accomplished. In fact, the government has not shown much courage or determination in formulating a wage policy for planned development.

Need-based minimum wage provisions for construction workers need special emphasis, because construction workers are unorganised. While organised workers can (sometimes effectively) bargain to improve their wages or their conditions of work, their counterparts in construction and other such industries have to look to the government for safeguarding their interest. Much, therefore, depends upon the initiative of the State. Government has to take the initiative to see that the minimum wage (a) is enforced, (b) is revised with a minimum time-lag so that a rise in the cost of living is neutralised with the least possible delay and (c) approaches a need-based minimum wage.

I

Basic Objectives

The basic objective of fixing the minimum wage is to improve (or to protect) the (present) standard of living of the lowest-paid workers who are not collectively organised. Low wages may retard economic development in three ways: (i) underpaid workers are unlikely to be efficient; (ii) low wages mean low demand from workers which means a restriction in the demand for goods; (iii) it is "socially undesirable, unjust from a humanitarian point of view, and politically dangerous that a part of the population should earn next to nothing."[1]

Besides the fundamental objectives of raising the standard of living of the unorganised lowest-paid workers, then the other objectives of having a minimum wage should be (i) to promote economic development by increasing purchasing power — and thereby production and employment, and (ii) to obtain

for the worker a fairer remuneration, proportionate to his productivity.[2]

The characteristics of the construction industry and of the employment of labour on a casual basis make for the absence of collective bargaining.[3] Government should, therefore, come to the rescue of the weaker sections of industrial labour.

It has been said that because of the inelasticity of food supply and the wide disparity of income between the non-wage earners and the wage earners particularly in the urban areas, the wage earners are "powerless to bid a greater supply of foodgrains towards themselves or their families", and further that "historical advantage in the matter of initial purchasing power which non-wage earning sectors have over the working classes is indeed so great that the former can always bid the latter out of the market".[4] If this be the condition of industrial workers in general, the economic disadvantages to which the labourers in the construction industry are put can be imagined It is in this context that the provision of minimum wages for them has to be viewed.

The fact — which seems obvious though it is not carefully analysed — is that, in the sellers' market in daily necessities as it exists in India since the Second Five-Year Plan, unorganised labourers and particularly those who are at the lowest rung of the wage ladder are put to much difficulty. One of the administrative measures by which exploitation may be at least reduced if not eliminated, is fixation of the minimum wage. The most difficult part of fixing the minimum wage is in the determination of its criteria.

II

Criteria for Fixing Minimum Wage

The most important criteria in fixing the minimum wage should be (i) the cost of living, (ii) the capacity of the undertaking/industry to pay, and (iii) the productivity of the workers.[5] The minimum wage should reflect the recognition by the authority of the workers' basic needs. It should be adjusted from time to time to take into account not only the changes in the cost of living but also the changes in the general economic condition of the country. Such a recognition of the workers' minimum needs will have to be related to the economic feasibility of ensuring to the workers a certain standard of living through the minimum wage. In other words, the minimum wage should be relative to 'economic feasibility'. The main problem may, therefore, remain: *viz*, how are the two important principles of 'social desirability' and 'economic feasibility' to be combined and applied in determining the level of minimum wage.[6]

It is very difficult to be precise about the terms 'social desirability' and 'economic feasibility', or for that matter about the 'capacity of the undertaking to pay'. It may be argued that the capacity to pay of the employers (the contractors) in the industry is limited since they get the contract under highly competitive conditions. They may, therefore, need to economise on labour costs.[7] Although this may be accepted as a limiting factor, it should be remembered that it would be undesirable for a society to countenance a wage policy which fails to guarantee the workers the minimum economic protection. Similarly, the productivity of the workers may be said to be a limiting factor; it is common knowledge that the productivity of workers is a function of many factors, of which the level of wage (income) itself is very important.

Notwithstanding the elusiveness of some of the concepts, and the consequent difficulties of their practical application, the provision of the minimum wage should not be made regressive. And a mere administrative or legal provision of a minimum wage will have no meaning unless the minimum needs of the workers are in fact met — at least in respect of food, clothing housing, and medical care.

Let us now proceed to discuss the minimum wage rates in the different states of India.

III

Minimum Wage Rates in the Different States

The minimum wages for the construction workers in most states have been fixed at a single rate instead of in ranges. And whether it is the single-rate or the range basis, employers are free to fix wages at higher than that laid down as the minimum. However, the scope for such flexibility may be wide in the case of a single rate. This is because, when there are upper and lower limits to a definite rate it is likely that the flexibility would be restricted within these limits. The fixing of a wide enough range, in states such as Maharashtra and Orissa, has meant that the minimum wage provisions in these states further legalised 'sweating' as it gave employers scope to fix the rates towards the lower limit. By implication, the 'range' also sets the maximum wage rate. For example, in West Bengal the range for the statutory minimum wage in 1960 was between Rs 1.75 and Rs 2.00 per day for adult, male, unskilled labourers, so a difference of 25 paise remained between the lowest and highest. It is not known on what basis such differentials are determined. When Rs 2.00 had been allowed as per the provision of the minimum wage, what is the point of allowing another rate lower than this? In this connection Palelkar's comments are worth quoting:

"Here we must beware of a trap! There is a minimum and a maximum to a minimum basic wage — something like a minimum minimorum and a minimum maximorum in differential and integral calculus. Minimum wage fixation in Indian industries now moves off the ground into the clouds; into a nebulous phase of high mathematical abstraction.... To give just one example, an unskilled worker in a Madras silk mill receives a dearness allowance at the finely chopped rate of 10-¾ annas per day. It is precisely in cases like this that one is strongly persuaded to believe how crucial wages are in economic development of underdeveloped countries and how, even a slight

TABLE 1: ACTUAL AND OFFICIAL MINIMUM WAGE RATES IN SOME STATES FOR UNSKILLED MALE LABOURERS, 1960-61

States	Actual Minimum Wage Rates 1959-61 (Rs)	Official Minimum Wage Rates (Rs)
Andhra	1.25	1.50 - 1.75 (1961)
Bihar	1.25	1.75 (1961)
Madhya Pradesh	1.25	1.25 - 1.75 (1959)
Punjab	1.75	2.00 (1960)
Rajasthan	1.25	1.50 (1959)
West Bengal	1.25	1.75 - 2.00 (1960)

Note: The figures in parentheses indicate the year of revision/fixation of minimum wage rate.

Sources: (1) Actual minimum wage rates from Government of India, Ministry of Labour and Employment, Labour Bureau : "Contract Labour, etc", *op cit*, pp 134-35.

(2) Official minimum wage rates from Government of India, Labour Bureau, *Indian Labour Statistics*, 1969, pp 86-87.

TABLE 2: ACTUAL AND OFFICIAL MINIMUM WAGE RATES AND PRICE INDEX IN VARIOUS STATES: 1959-61 TO 1966

States	Actual Wage Rate Prevalent during 1959-61 (Rs)			Minimum as Officially Fixed (Rs)	Column 5 as Per Cent of			Price Index 1960=100
	Minimum	Maximum	Average		Column (2)	Column (3)	Column (4)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Andhra	1.25	2.00	1.62	1.50 (1961)	120	75(87.5)	93	106 (1961)
Assam	2.00	3.00	2.50	3.25 (1964)	162.5	108	130	131 (1965)
Bihar	1.25	2.50	1.87	1.75 (1961)	140	70	94	102 (1961)
Kerala	1.25	3.00	2.12	2.20 (1963)	176	73	104	136 (1965)
Madras	1.00	2.25	1.62	1.50 (1964)	150	67	93	—
Maharashtra	1.25	3.50	2.37	1.52 (1965)	121.6	43 (68)	64	127 (1965)
Mysore	1.50	3.50	2.50	1.75 (1968)	116.6	50	70	165 (1966)
Orissa	1.25	2.50	1.87	1.00 (1965)	80	40 (80)	54	126 (1965)
Punjab	1.75	2.00	1.87	2.00 (1960)	114	100	107	100 (1960)
Rajasthan	1.25	2.50	1.75	2.00 (1965)	160	80	114	133.5 (1965)
Uttar Pradesh	0.88	2.75	1.82	1.73 (1965)	196.5	63	95	149 (1965)
West Bengal	1.25	2.00	1.62	1.75 (1960)	140	87.5(100)	108	100 (1960)
Delhi	1.75	2.50	2.12	2.50 (1964)	143	100	118	134 (1965)

Note: Price index (column 9) relates to consumer prices for industrial workers. Figures in parentheses in column 7 show the percentage of maximum rate in the official minimum wage provisions.

Sources: Columns 2 to 4, Government of India, Ministry of Labour and Employment, etc, "Contract Labour—Survey of Selected Industries (1957-61)", pp 134-35. Wage rates under column 'Dam' have not been included as these were not found common in all states.

Column 5, GOI, (Labour Bureau), Indian Labour Statistics, 1969, pp 86-87; wage rates of Maharashtra, Mysore and Rajasthan were taken from National Commission on Labour, Report of the Study Group for the Construction Industry, (Delhi 1968), p 34.

Column 9, Indian Labour Statistics, 1969.

change in that little fraction of an anna, may make all the difference in the world in setting off a wage-price spiral!"[8]

Let us now compare the actual minimum wage rates prevalent in certain states with the official minimum wage rates fixed by the relevant state governments for male labourers in the road and building construction industry during 1959-61. It will be seen that in *none* of the states are the minimum wage rates strictly enforced; the actual minima were less than the legal minima (see Table 1).

Table 2 presents comparative data on actual minimum, maximum, and average wage rates, the official minimum wage rates, and the consumer price index for industrial workers for the period 1959-61 to 1966. The data relate to the daily wage rates of unskilled male labourers engaged in road and building construction industry. It will be seen that the official minima were kept at rates lower than both the average and the maximum wage rates. For example, in Orissa and Maharashtra the actual average official minimum wage ratios are 1.9 : 1 and 1.6 : 1, respectively; in Mysore the same is 1.4 : 1. Such differentials have been allowed to exist for even 4-5 years. In other words, the minimum wage provisions have not been properly revised in keeping with the market rates.

Let us now compare the percentage differential as presented in columns 6, 7, and 8, with the price index presented in column 9. It will be seen that the percentage differential between the official minimum and the actual minimum (column 6) compares favourably when set against price indices in all the states, except in Maharashtra, Mysore, and Orissa. In other words, the price increase seemed to have been kept in view while fixing the minimum wage rate in relation to the prevalent actual minimum wage rates in most states. But when the relative price increase is set against the official minimum wage expressed as a percentage of actual average (column 8), one finds that, excepting Assam and Punjab, the price increase (column 9) in the corresponding period exceeded the wage increase. The picture will look worse when one compares the price index with the official minimum wage expressed as a percentage of actual maximum wage (column 7). On a closer look one thus finds that fixation of minimum wage, even if enforced, has put the wage rates in reverse gear! The following examples will further justify this contention:

In Mysore, the official minimum wage rate in 1966 was only 16.6 per cent higher than the *actual* minimum wage rate of 1959-61. But in the context of *actual average* wage as it existed during 1959-61 (Rs 2.50), the fixation of the *official minimum* wage even after six years (i e, in 1966) at Rs 1.75 per day has caused a lowering of the rate to 70 per cent (of the 1959-61 actual average level) while the industrial workers' consumer price index rose to 166 (1960=100) in 1966. Similarly, in Orissa, the official minimum wage range was fixed in 1965 at Re 1.00 to Rs 2.00 per day. The official minimum rate was thus 20 per cent lower than the actual minimum rate of 1959-61. After five years, the official minimum was put in the reverse gear while price index showed an increase of 26 per cent from 1960. In Uttar Pradesh, the official minimum was pegged at Rs 1.73 per day in 1965, though four to five years earlier the average wage was already at Rs 1.82 per day and the maximum rate was Rs 2.75 per day; the price index in the state had already touched 149 (1960=100) in 1965.

The data thus show that, on the whole, fixation of minimum wage has been of regressive character. The authority responsible for fixing the rate has taken into consideration neither the wage already prevailing in the market nor the price index. Again, even when labourers' economic plight might have been relieved to a certain extent through strict enforcement of the minimum wage rates, this was not done; labourers in fact continued to receive wages less than what they were legally entitled. Since the primary task of a minimum wage is to reduce exploitation of labour, all aspects need to be carefully examined before fixing the rate, and in no circumstances should the actual wage rate be less than the minimum stipulated.

IV

Minimum Wages in Tripura

In Tripura, the minimum wages for the road and building construction workers have still not been subjected to any official regulation. In other words, the minimum wage has been allowed to be determined by the employers according to the demand for and the supply of labourers. The employers — the contractors and sub-contractors — are of the opinion that the cost of living as it is reflected through changes in prices of most essential commodities, particularly rice, is the main factor which induces workers to demand a higher wage. In an earlier article in this journal it was argued that it is difficult to establish the contention that fixing of wage rate is influenced mainly by the price of essential commodities.[9]

Table 3 shows the actual minimum wage prevalent during 1956-1968. The wage of the workers as well as the retail price of coarse rice are shown in indices in columns 3 and 4, respectively. It will be seen that the minimum wage rate moved up along with an increase in the price index. But price-wage sensitivity stopped from 1966 onwards.

Assuming the prevalent minimum wage as the official minimum and further assuming that the minimum wage rate as it existed in 1956 was satisfactory, it may be said that the situation in Tripura was better than in the other states, where, as we have seen, the official minimum rates were mainly of a regressive character. Upto 1965 (excepting 1958-59 and 1963) the minimum wage was higher than the cost of living. But from 1966 onwards, the workers have been put to much disadvantage as the cost of living has moved up at a much higher rate — the index rose to 311 in 1968 while the minimum wage index remained at 133 (1956=100). In other words, while the minimum wage moved up by only 33 per cent the price of coarse rice shot up by 211 per cent. In a situation like this the official intervention is clearly very necessary to protect the economic interest of the unorganised workers.

V

Components of Minimum Wage

Above all a minimum wage must be realistic enough. It should not only meet basic human needs, such as food and clothing of wage earners and of the members of their family, but should also provide, "some measure of education, medical requirements, and amenities".[10] To what extent can the present minimum wage meet these requirements? Let us take the case of an unskilled worker who, according to the latest recommendation (December 1969) of the Minimum Wages Committee (Central Sphere), is to receive a wage of Rs 2.40 per day but has three other non-earning members.

This would mean that, even if we consider his expenditure on food alone, ignoring his other necessities like housing, clothing, etc, he would be able to spend only 30 paise per meal (240 paise/8 meals). Can an expenditure of 30 paise per meal be considered sufficient "for the preservation of the efficiency of the worker"? Does it not seem to be an irony, in the context of the recommendations of the Fair Wages Committee set up by the Government of India to the effect that the "minimum wage must also provide for [the preservation of the efficiency of the worker] some measure of education, medical requirements, and amenities"?[11]

The minimum wage, to be precise and realistic, should consist of two components:

(a) Basic wage component: This should be determined according to certain norms, preferably keeping in view the objects as laid down by the Fair Wage Committee. Further, such a wage should be independent of workers' output or productive efficiency and fluctuation in the cost of living. This should be formulated according to the prevailing average wage operating in a particular area.

(b) Dearness allowance component: This should be linked to the cost of living in order to neutralise its rise. Since the provisions of the minimum wage are intended primarily for those who are on the lowest rung of the wage ladder and since they are meant for reducing the possibility of exploitation of workers, it is suggested that a 100 per cent neutralisation against a rise in the cost of living should be made.

While admitting that in many cases the notified minimum wage rates have become 'outdated', and are much less than the prevailing 'scheduled' rates the Study Group for the construction industry appointed in February 1968 by the National Commission on Labour (the Gajendragadkar Commission) had nothing else to suggest but that the periodicity of revision should be at "more frequent intervals than the five-year interval prescribed at present".[12] It is unfortunate that the Study Group, which was "required to analyse available information and to project its thinking on labour problems in the construction industry for the years to come, taking into account the possible development in the industry",[13] could afford time to visit only two big projects in and around Bombay. No wonder, therefore, that the Group, after such 'direct observation' could just 'project its thinking ... for the years to come' with the sweeping and almost obvious generalisation that the minimum wages prescribed are very low especially for the unskilled labourers as compared to the prevailing wages in the construction industry in the different parts of the country".[14] Instead, it would have been most welcome if the Study Group had made a comprehensive and comparative study of statutory and existing minimum wage rates and the price levels.

TABLE 3: ACTUAL MINIMUM WAGES OF UNSKILLED MALE LABOURERS AND RETAIL PRICE INDEX OF COARSE RICE IN TRIPURA, 1956-1968

Year	Wage Rate Minimum (in Rs)	Wage Index	Price Index
(1)	(2)	(3)	(4)
1956	2.25	100	100
1957	2.25	100	96
1958	2.00	89	95
1959	2.00	89	102
1960	2.25	100	88
1961	2.25	100	98
1962	2.40	107	103
1963	2.50	111	114
1964	3.25	144	130
1965	3.00	133	131
1966	3.00	133	174
1967	3.00	133	249
1968	3.00	133	311

Sources: (a) Wage data: Field investigation by the author.
(b) Price index: Worked out from Government of Tripura, Statistical Department, *Statistical Abstract*, 1965, p 208, and *Quarterly Bulletin of Economics and Statistics*, Number 3, Volume XIV, 1967. Price index for 1967 (average of 9 months) and for 1968 (average of 6 months) has been worked out from subsequent Draft Reports.

VI

Need-Based Minimum Wage

We have already pointed out how, in most states, the minimum wage provisions are not implemented. We would give two more instances wherein we would find how government's non-committal attitude on this score has betrayed the fundamental objective of such statutory provisions — i e, that of safeguarding the interest of workers from the possibility of exploitation because of almost complete lack of any collective

organisation among them.

The 15th Indian Labour Conference, held in New Delhi in July 1957, took an important decision on wage policy. For the first time, the concept of a minimum wage was put in concrete terms by the Conference in the form of a 'need-based minimum wage' in the determination of which certain norms were prescribed.[15] By accepting the formula of the 'need-based minimum wage' employers, employees, and government, have all put themselves under an obligation to see that this is actually enforced. It is unfortunate that government should think it wise to avoid its responsibility of enforcing the formula, on the plea that (i) this was not the decision of the government (although it was party to such recommendations), and that (ii) "government had at no time committed themselves to taking executive action to enforce the recommendations".[16]

Similarly, it is said that the general policy of the government has been to accept the unanimous recommendations of a wage board. But, in the absence of executive or statutory backing, the onus of implementation of the recommendations of the wage boards has fallen on the employers. According to present practice, the implementation of the final decision, even after the concurrence of labour and other relevant ministries, is secured by the process of persuasion and advice, using the machinery of the state governments.[17] Among the state governments, only Uttar Pradesh has so far implemented the recommendations of some of the wage boards.[18]

No wage board has been set up as yet for the construction industry; in any case, it is no use constituting a wage board which agrees and becomes a party to recommendations, but finally throws them overboard when the question of their practical implementation comes up. Above all, it creates mistrust and ill-feelings amongst the labourers towards their employers.

VII

Summary and Conclusions

If workers are required to play their due role as the "principal instrument in the fulfilment of the targets of plan and the achievement of the economic progress generally", they must be assured of at least adequate food, shelter and clothing. Although the First Five-Year Plan assured the workers of these basic needs, in reality little has been accomplished. In fact, government has not shown much courage and determination in formulating a correct wage policy in the context of planned development.[19] Instead, the provisions of minimum wage have fallen far short of requirement prescribed by the Fair Wage Committee. What is still more unfortunate is that in some states even this amount has not been paid.

The importance of the need-based minimum wage provision for construction workers can hardly be overemphasised, especially in a region like Tripura where minimum wage provisions are not yet enforced. In the absence of any official regulation of the minimum wage, the construction workers of Tripura are put to great difficulty. An underdeveloped region such as Tripura offers very limited scope for employment in other industries. The construction workers badly need protection from any further erosion in their real wage. Hence special attention has to be given to the fixation of minimum wage for these workers. Construction workers are also more vulnerable because of their unorganised character. While organised workers can (sometimes effectively) bargain to improve their conditions of work, including a rise in wages, their counterparts in construction and similar other industries will have to look up to government for safeguarding their interest. Much, therefore, depends upon the initiative of the State. In the interest of the workers, who have been rightly crowned as the "principal instrument for the fulfilment of planned targets in particular and achievement of economic progress generally", government must take some initiative to ensure that the minimum wage (a) is enforced, (b) is revised with minimum time-lag to neutralise the rise in the cost of living, and (c) approaches towards the need-based minimum wage.

Notes

1 ILO, "Minimum Wages in Latin America"; Studies and Reports, New Series, Number 34, ILO, Geneva, 1954, p 3.

2 *Ibid*, p 16.

3 For a detailed account, see Guha Thakurta, S N, 'Employment in the Construction Industry: Does It Have to Be So Unstable?', *Economic and Political Weekly*, Volume V, Number 12, March 21, 1970, pp 521-27.

4 Palelkar, S A, "Problems of Wage Policy for Economic Development" Asia Publishing House, Bombay, 1962, pp 201-03.

5 ILO, *op cit*, pp 16-17.

6 ILO, "Problems of Wage Policy in Asian Countries", Geneva, 1956, pp 75-77; ILO, "Minimum Wage Fixing Machinery and Related Problems, with Special Reference to Developing Countries", Report VII(i) of Fifty-third Session, 1969, p 39.

7 ILO, "Wages: (b) Fair Wages Clause in Public Contracts", Report VI(b) (1) of Thirty-first Session (1948), Geneva, 1947, p 2.

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9 Guha Thakurta, S N, 'Wage Determination of Unorganised Labour in Construction Industry', *Economic and Political Weekly*, Volume VI, Numbers 42 and 43, October 16, 1971, pp 2211-15.

10 Government of India, Ministry of Labour and Employment, Report of the Committee on Fair Wages (1952), para 15.

11 Rs 2.40 per day for an unskilled worker engaged in the rural areas in the building and construction industry is the latest recommendation of the Minimum Wages Committee (Central Sphere) made on December 30, 1969. This happens to be the first upward revision of the minimum wages in the industry in the Central Sphere. The other recommendations are as follows: Rs 3.20 per day for semi-skilled workers; Rs 4.80 for skilled and Rs 6.00 for highly skilled category workers. *The Statesman*, city edition, January 1, 1970, p 9.

12 National Commission on Labour, Report of the Study Group for the Construction Industry, Manager of Publications, Delhi, 1968, p 23.

13 Chairman P B Gajendragadkar's observation in the Foreword to NCL Report of Study Group, *op cit*.

14 *Ibid*, p 22.

15 Important norms are (i) the members of a standard working class family should be taken as four out of which the earnings, if any, of the other three should not be taken into consideration in formulating the 'need-based minimum wage'; (ii) minimum food requirement is to be calculated on the basis of of 2,700 calories per adult per consumption unit; (iii) clothing requirement on the basis of 18 yards per annum per capita, i e, 72 yards per family of four members; and (iv) expenditure on fuel, lighting and other miscellaneous items should constitute 20 per cent of the total minimum wage.

16 Article by P S Lokanathan, 'Problems of Wages and Wage Fixation' in "Labour and Planning", edited by Radhakamal Mukerjee, Allied Publishers, 1964, pp 232-33.

17 NCL, "Report of the Committee on the Functioning of the System of Wage Boards", Manager of Publications, Delhi, 1968, pp 8-9.

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19 Government of India, Planning Commission, First Five-Year Plan — Final Report, New Delhi, 1952, p 570; Palelkar, S A, *op cit*, Chapters 7 to 9, and pp 230-34.

The Rashtriya Swayamsevak Sangh—I

Early Concerns

Walter Andersen

In this, the first of a four-part historical narrative of the origins and growth of the RSS, the author deals with the disenchantment of many Congressmen with Gandhi's Non-Co-operation Movement and with efforts at Hindu-Muslim togetherness. One of these disaffected Congressmen, Hedgewar, whose early years are recounted in detail, goes on — inspired by Savarkar — to found the RSS in 1925. The emphasis in the early years of the RSS is on initiating unity, discipline and culture-consciousness among Hindus.

By the late 1930s the RSS is an organised and trained group with its own para-military organisation. This attracts the attention of the Government of India which begins to keep a close watch on it. In order to prepare for the post-War period and the expected Hindu-Muslim troubles, the RSS decides at the beginning of the Second World War not to antagonise the Government in any way. Part of the strategy is to avoid scrupulously any political activity or any help to the Hindu Mahasabha. This decision proves to be controversial within the ranks of the RSS. The general approach of Golwalkar, Hedgewar's successor, is extreme caution in order to avoid the wrath of the British. The RSS does not take part in the 'Quit India' movement in 1942.

The next part of this narrative deals mainly with the relationship between the RSS and the Hindu Mahasabha. The third section covers Gandhi's assassination and the subsequent banning of the RSS. The fourth and final part discusses the genesis of the Jan Sangh and the role played by the RSS in its formation.

THIS is a study of the most potent organised Hindu cultural group of the twentieth century in India — the Rashtriya Swayamsevak Sangh (RSS).[1] Two themes emerge as the purpose of the RSS in its formative stages: (1) to unite Hindus, as part of the initial preparation of ridding India of colonial rule; (2) to organise Hindus against external dangers of Islam, Christianity, and other outside creeds which the organisers felt were tending to denationalise Hindus. The means to accomplish both was the reforming or rebuilding of character to serve the cause of national and cultural liberation. The organisation of that movement was, in large part, drawn from the Maharashtrian tradition — an organisation combining a gymnastic and military tradition, and a Hindu math (i e, monastery). A programme emphasising gymnastics, Indian games, glorification of military and religious heroes, and the Brahminical concept of selfless service is also linked to the Maharashtrian locale of the RSS. Below is a sketch of the rise and development of that movement between 1925 and 1951, when the forms and policies of the organisation were formulated. Frequent mention will be made of the Hindu Mahasabha, a group with which many RSS members were at one time associated, and from whose ranks the leader of the political expressions of its ideology emerged.

I

In 1916, a short period of Hindu-Muslim amity was inaugurated at Lucknow when a pact was formed between the Congress and the Muslim League, in which the Congress agreed to separate representation for Muslims in the elected assemblies. The spirit of co-operation was strengthened when Gandhi and a large section of the Congress agreed to support the Muslim Khilafat movement — a movement to support the Khalif at Istanbul from a debilitating treaty with the British and their allies at the conclusion of World War I. Gandhi linked the Non-Co-operation Movement with the Khilafat Movement. He received the sanction of the Congress at the Special Session of the Congress at Calcutta (September 4-9, 1920) even though he had formally inaugurated it on August 1, 1920. The resolution[2] listed two grievances: (1) failure of the British to satisfy the Muslims on the Khilafat question; (2) failure of the British to punish the officers in the Punjab for their "barbarous" activities in that province. A series of boycotts was suggested in the resolution. There was great opposition and the measure was passed by a narrow margin of seven votes in the Subjects Committee.[3] The delegations from Bengal and the Central Provinces expressed grave reservations over the boycott of the new legislative bodies to be instituted by the Montagu-Chelmsford Reforms.[4] Many Maharashtrian Congressmen frankly disagreed with both the motives and means of the Non-Co-operation Movement.[5] Following the meeting, Gandhi assembled the leading Home Rule Leaguers on October 3 and had both its name and creed changed. Nineteen of its more prominent members, mainly from Bombay Province, immediately resigned.[6] On December 10, 1920, G S Kharpade, a prominent colleague of Tilak, issued a memorandum denouncing Gandhi's programme, stating, "The NCM as preached now may develop powers of endurance, but cannot breed the energy and resourcefulness and practical wisdom necessary for a political struggle."[7]

In late December 1920, the regular Congress session was held at Nagpur. It is ironic that Gandhi emerged as the undisputed leader of the Congress in a city whose Congress leaders were close colleagues of Lokmanya Tilak and very much opposed to the programmes of Gandhi. Keshav B Hedgewar, the founder of the RSS, was prominent in the politics and social life of Nagpur. At that session, Hedgewar organised the young Congress volunteers. The RSS was later to adopt the name and the uniform of the volunteer group that Hedgewar had organised for the 1920 Nagpur Session. Let us look more closely at his career.

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II

Hedgewar was born on April 1, 1889, in a family of Telugu Brahmins. His family had migrated to Kandkurti near the border of Maharashtra and Andhra Pradesh, where three rivers of central India meet, the Godavari, Vanjara and Haridra. The specialisation of the family was the teaching of the Vedas. This place had attracted many pilgrims and Brahmin teachers. His biographer explains that the family migrated to Nagpur in the early part of the nineteenth century to escape Muslim persecution at Kandkurti.[8] They prospered under the Hindu Bhonsle kings with their traditional occupation. When the Bhonsle Raj came under British rule in 1853, they were forced by circumstances (i e, lack of government patronage) to become priests, a less prestigious occupation.[9] On the death of the last Raja, Raghuji III, without heir, the British made use of the doctrine of lapse and incorporated the Bhonsle Raj into the area directly ruled by the British. The Brahmins felt particularly threatened by this change in rulers. The Brahmin community there also viewed this as a direct threat to the continued existence of Hinduism. Posters were put on the wall of the Jagruteshwar temple in Nagpur at the time of the Raja's death. One read, "With obeisance to Lord Jagruteshwar, hereby all the Brahmin priests residing in Nagpur, whether dependent on government or not, all persons such as Shastris, Pandits, Priests or Vaidiks and Yajniks of the four Vedas, and all Sadhus — all persons are directed that following the death of Raja Raghuji there is great anxiety, whether the Hindu State will exist." Brahmins were implored to perform Rudrabhisket, Jap, and recite Stotra at the temple on a given day and, "Those who fail to do this duty are warned that they will not be considered to be born of Brahmins." Non-Brahmins who did not co-operate would be considered chandalas — untouchables.[10] A series of reforms such as the abolition of sati, the Hindu Widows Remarriage Act of 1856, the Religious Disabilities Act of 1850, as well as vigorous Christian activity convinced many that the new government was out to destroy the fabric of Hindu society and to convert India to Christianity.[11]

While many Brahmins prospered under the new raj in the new professions opened to educated persons and in administration, the family of Hedgewar clung to their traditional vocation and way of life.[12] Because he was not interested in studying the Vedas and because of his intelligence, young Keshav Hedgewar was enrolled in a school imparting modern education[13] and was drawn into the nationalist circle of young men forming around a young doctor, Balkrishna Shivram Munje, recently returned from the Boer War in South Africa.[14] Like many other young men who were to become prominent in the RSS, Hedgewar lost his parents at a young age and was raised in a setting of poverty. He soon drifted into revolutionary activities when a wave of protest spread throughout India on the division of Bengal.[15] His political guru, B S Munje, decided to send him to the National Medical College in Calcutta where he stayed for six years. While there he joined the revolutionary Anushilan Samiti.[16] He also came into close contact with the Ramakrishna Mission, an organisation that was to have enormous influence on Hedgewar's future successor.[17] He returned to Nagpur in 1916, and over the strong objections of his family never fulfilled the second ashrama of orthodox Hinduism (i e, did not marry or take up a profession). A large number of gymnasiums were organised in Nagpur in the early decades of the twentieth century.[18] These became recruiting centres for the young revolutionaries forming around Hedgewar.[19] They collected arms, trained and tried to establish contacts with revolutionary groups elsewhere. The young men who joined the revolutionary group had to undergo many tests. If selected, they were required to take their oath in the presence of pictures of Shivaji Maharaj and Ramdas Swami, the poet saint of Maharashtra.[20] A book on Mazzini by Veer Savarkar, stories about Joan of Arc and the Bengali revolutionaries were distributed to the young members.[21] Apparently, Hedgewar was hoping to organise a massive uprising in the Central Provinces and sent agents out to Nagpur to get arms. But the British foiled all attempts and public apathy disappointed him.[22] He decided to participate in Congress politics and joined the National Council in the Central Provinces, led by followers of Lokmanya Tilak.[23] In early 1919 the National Council (an organisation of Congress supporters in Nagpur) selected Hedgewar to spread the circulation of a new Congress weekly, *Sakalpa*. For several months, he travelled through the Hindi speaking areas of central India, establishing acquaintances that that would help him later when he established the RSS.[24]

This brings us back to the Nagpur session. Hedgewar assisted V L Paranjpe in organising some 1,200 volunteers for the Congress session.[25] He was also appointed to the Non-Co-operation Council of the CP Provincial Congress and assigned the task of organising its meetings.[26] Along with other Tilakites, Hedgewar felt Gandhi was giving far too much emphasis to the Khilafat agitation. He was deeply shocked when Gandhi refused to put cow protection on the agenda of the Congress at Nagpur.[27] Without their leader, Tilak, who had died the previous August, the Tilakites could not organise a resistance to Gandhi at Nagpur.[28] Freedom within a year and boycott were the slogans and Hedgewar decided to give this experiment a try. He gave a series of lectures in Maharashtra and deliberately broke the law. He was arrested and tried in June 1921. On August 14, 1921, he was sentenced to one year's rigorous imprisonment.

During that one year in prison, a number of momentous events shook India. In late 1921 the Moplah Muslim community in nothern Kerala, in part inspired by the Khilafat agitation, revolted against British authority. For several days, British authority ceased to run in that area. However, in the flush of victory, they also attacked the Hindus living among them, forcing many to convert.[29] The Prince of Wales arrived in India on November 17, 1921. That visit activated the Congress volunteer movement. Thousands were arrested.[30] The 1921 Session of the Congress in Ahmedabad instructed Congressmen to pursue non-violent non-co-operation with increased vigour and gave Gandhi sole executive powers to carry out the non-co-operation programme. On January 30, the Congress' Working Committee authorised the people of a small political sub-division in Gujarat (Bardoli) to inaugurate the non-co-operation campaign. Just about two weeks later, over the intense opposition of many Congressmen, Gandhi called off the campaign (on February 12) because of the massacre of police officers in Gorakhpur District, United Provinces.[31] Into this scene of mounting communal antagonism and dejection because of the failure of the non-co-operation movement, Hedgewar was released from jail on July 12, 1922. He was dismayed by the lack of organisation in the Congress volunteer organisations.[32] Without such a disciplined organisation, Hedgewar thought the patriotic youth could never remove foreign rule. Moreover, he felt that a non-violent programme would not capture the imagin-

ation of the young.[33] Despite considerable misgivings in the Congress, he was elected to the Central Provinces Provincial Congress Committee and was appointed its joint secretary.[34] But he became increasingly concerned over what he perceived as the lack of sincerity and vigour of the Congress leaders. Hedgewar favoured joining legislative assemblies and joined the responsivists in the internal Congress controversy on this issue. Most of his politically oriented friends did in fact join the Swarajya Party, but he did not. He was convinced that a necessary condition to independence was a dedicated cadre inspired by the nation's traditions and history. He held meetings with prominent politicians in Nagpur between 1922-24 on ways to bring about such an organisation. He visited Gandhi's ashram in nearby Wardha in 1924 and discussed this issue and other Congress policies. He is reported to have disagreed with Gandhi on his support of the Khilafat Movement and maintained it had created a separatist tendency in the Muslim community. He left Wardha to ponder on how to unite the often antagonistic Hindu groups into a common nationalist movement.[35]

After a period of inactivity, organisations oriented to one or the other religious communities began to emerge. On August 20, 1923, the Hindu Mahasabha met in Benaras with many prominent Congressmen attending.[36]

Many ideologically opposed Hindu groups met on this common Hindu platform. The views expressed were important for they reflected the concerns of much of Hindu India about deteriorating Hindu-Muslim relations, and also the weaknesses in the Hindu community. The main theme was division in the Hindu community. It was assumed that Muslims were united and able to inflict punishment on Hindus. In his presidential speech to the Mahasabha Session, Madan Mohan Malaviya stated "Friendship could exist between equals. If the Hindus made themselves strong and the rowdy section among the Mahomedans were convinced they could not safely rob and dishonour Hindus, unity would be established on a stable basis."[37] His prescription was to educate all boys and girls, establish akharas (gymnasiums), establish a volunteer corps to persuade people to comply with decisions of the Hindu Mahasabha, to accept untouchables as Hindus and grant them the right to use wells, enter temples, get an education. Moreover, Hindus would not be able to resist the government unless they were organised.[38] Hedgewar subscribed to both the analysis and the prescription.

In October 1923, the Muslim and Hindu communities in Nagpur confronted each other over the issue of music before mosques. On October 30, 1923, the district collector banned a Dindi procession. Hedgewar was one of the Hindu leaders who attempted to break the government ban. A Hindu Sabha was organised under the presidency of Raja Laxmanrao Bhonsle, heir of the former ruling family of Nagpur. Munje was vice-president and Hedgewar its secretary.[39] Riots broke out in the city. At about this time, Hedgewar read a handwritten manuscript of Vinayak Damodar Savarkar's *Hindutva*;[40] it profoundly affected his thinking about the Hindu nation. Savarkar's thesis was that the Hindu people in the subcontinent were a nation. To be a Hindu did not necessitate any particular religious dogma.

Hindu nationalists such as Savarkar disagreed with the view that the Aryans were but one in a series of outside invaders of the subcontinent. He maintained that Aryans had their origin in the Sindh valley and their culture spread out to encompass all of India, being modified as it spread. The result according to Savarkar, was not only a synthesis of culture, but a mingling of blood. Aryan-non-Aryan, caste-outcaste based on blood distinctions were therefore "false". This was a radical departure from the Santanist viewpoint. He maintained that the common suffering caused by foreign invaders over hundreds of years had welded the nation together as an emotional unit. The proof of this emotional unity "was demonstrated" in the tendency of Hindu monarchs to view India as a unit. Shivaji, for example, was not just a Maratha monarch, but one who felt keenly about all of India and was accepted as an ally by other Hindus in India. This view is subject to question but it was accepted by Hedgewar and other Hindu nationalists.

What then was a Hindu? According to Savarkar, all those who loved the land that stretches from the Sind river in the west to the seas in the east qualified in one respect. More was necessary; one must look at India not only as his fatherland, but as his holy land as well.[41] While not a religious man himself, Savarkar emphasised this last dimension because he believed that religious Hindus identified their gods with a specific geographic locality in India. This made them extremely loyal to that geographic unit.[42] To be a Christian or Muslim was to have a religion which drew on cultural sources outside the country, according to Savarkar. Taking on non-Indian names and customs was viewed as an indication of this. This, he strongly maintained, created divided loyalties.[43] In March, 1925, Hedgewar sought the advice of Savarkar, and stayed with him for two days.[44] Soon after, he formed the group that was to become the RSS.

III

Soon after on the festival of Dasera, Hedgewar founded the Rashtriya Swayamsevak Sangh.[45] While we do not know what role Hedgewar played in the developing factional politics of the Congress in Nagpur, led by B S Munje on one side and Abhyanker and N B Khare on the other, it undoubtedly dismayed him further about the "weak" character of Hindus, more concerned with personal gain than the larger good. We do know he supported that school of thought favouring acceptance of office — known as Responsive Co-operation and supported by the Munje faction. In the 1923 elections, the Central Provinces gave the Swarajists their largest majority in any province in British India. Munje, consistent with the policy of the All-India Swarajya Party led by Motilal Nehru, refused to accept office. On October 8, 1925, the Swarajist S B Tambe decided to accept the offer of the Executive Council of the Governor of the Central Provinces, a breach in policy. There was an immediate adverse reaction by Motilal Nehru, President of the Swarajya Party. Nehru is reported to have said that many Congress leaders from Maharashtra (who had supported Tambe's move) represented "a diseased limb of the party and has to be amputated."[46] The Executive Committee of the All-India Swarajya condemned Tambe's action. Judging from Hedgewar's dislike of vituperative debate and the politics of confrontation, his declining interest in politics, as it was carried on by the Swarajya, is likely to have partly stemmed from these events, in which his closest colleagues were connected. We do know that many of the Congressmen in Nagpur who supported responsivists joined the RSS.[47] The RSS range of activities was quite limited. The members were expected to attend a gymnasium in the city. On Sunday mornings, they would gather as a group. On Tuesdays and Thursdays, a political class was held. This was later to develop into Baudhik (i e, intellectual

discourses), a regular feature of RSS activities. Military training was also soon started. (Military training was dropped during World War II.)

The first large-scale project was carefully selected. Hedgewar wanted to demonstrate the value of discipline both to the swayamsevaks (i e, volunteers) as well as to the public. At Ramtek village in April 1926, Hedgewar took the swayamsevaks to the fair held in connection with the birthday celebration of Shri Ramchandra. In the past, the chaotic conditions close to the temple created great hardships for the villagers who hoped to offer worship to the god. Hedgewar's biographer reports this venture. The swayamsevaks, in uniform, marched to the hill on which the temple was located, singing verses from the poetry of Ramdas. They organised queues and provided drinking water for the pilgrims. According to the account they prevented unscrupulous Muslim fakirs and Brahmins from taking money from the villagers.[48] The name and the uniform were chosen for this occasion. The uniform was much like that worn at the 1920 Congress session at Nagpur: khaki shirt, khaki shorts, a black khaki cap, long socks, and boots.

The new organisation was selective in admitting new members. A new member was required to obtain the sponsorship of two swayamsevaks of good standing. An oath of complete dedication was required of full members.

> "I pledge this day that I will remain a member of the Rashtriya Swayamsevak Sangh throughout my life. I shall carry out unhesitatingly any order given by the Sangh. I shall go for work wherever required. Whatever defects of the Sangh I shall come to know, I will never disclose them before any person not connected with the Sangh, even at the cost of my life. I shall be true in behaviour and conduct towards not only Swayamsevak Sangh but to all Hindus and will unhesitatingly serve them. In the end I swear that I shall serve Rashtriya Swayam Sangh with all my body, heart and money for in it lies the betterment of Hindus and the country."[49]

Aspiring members were intensively questioned by Hedgewar himself.[50] An extremely close relationship developed between Hedgewar and these first groups of swayamsevaks, many of whom were to become 'missionaries' of the RSS when it expanded out of its Nagpur base in the early and mid-1930s. The first meeting was located in the old part of Nagpur in a largely Brahmin neighbourhood (Mohite-Wade). While the RSS keeps no figures on the caste of members, the documents I have read strongly indicate that most of the early members were Brahmins.[51] Hedgewar continually tested the reasoning capacities of the swayamsevaks. A test for membership was decided by Hedgewar by asking questions and observing the ability of the person to give answers to various types of questions. The prospective member was also asked to give written analyses of different types of situations.[52]

It has been observed that volunteer groups in developing societies often serve many of the same needs normally satisfied by kin groups and lineages.[53] They form a cultural bridge that make innovation less strange. From its very formation, the RSS conceived of itself as a type of kinship group. In 1926, for example, Hedgewar decided to have the swayamsevaks observe Rakshabandhan, a North Indian festival in which the sister ties a thread of silk around her brother's wrist to indicate that the brother is expected to protect her.[54] Hedgewar not only fulfilled the role of traditional guru, but had something of a father image as well. Stories are told of his advising swayamsevaks to get an education and achieve a respectable place in society as he felt both RSS and Hindu society would benefit.[55] In 1927, the RSS began to spread out of its Nagpur-Wardha base to other parts of the Central Provinces. In 1928, in Nagpur alone, there were 18 shakhas.[56]

In those early years, the present form of the RSS slowly began to emerge. The political class mentioned above became a regular feature of the daily shakhas (i e, units) under the name of Baudhik.[57] Prayers and use of bugles for marches were instituted.[58] In a letter of Hedgewar to Gajananrao Kakar, six regular festivals of the RSS are listed. These were required of every shakha. They were Varsha Pratipada (i e, new year of Hindus); (2) Shivarajyarohanastsava (i e, coronation of Shivaji); (3) Shri Gurupoornima (i e, tribute to Guru, giving money to honour the Guru-Bhagwa flag); (4) Raksha Bandhan; (5) Vijayadashami (i e, Dasera); (6) Makarsankraman.[59] Military drills were also a common part of the programme. This was later dropped when the British banned military drill by volunteer groups during World War II and never renewed it. The shakhas also performed puja to arms on Dasera, a custom in many other parts of India.

What started out as a rather small group in Nagpur in 1925 became an 'obsession' with Hedgewar and by 1927, he dropped most of his other activities to devote himself full time to this new organisation. The life oaths required of members was inaugurated in 1928. They were first taken by 99 of the most steadfast swayamsevaks in a forest near Nagpur.[60] The oath was administered in front of the Bhagwa flag, which was the flag used by Shivaji and the Maratha rulers. Metaphysically, the flag was considered the chief of the Sangh. Hedgewar felt that too much honour to any individual was dangerous and therefore swayamsevaks were to pledge primary allegiance to this flag.[61] Palkar relates an instance of Hedgewar's dislike of overemphasising the importance of any individual. While visiting the art collection of the Maharaja of Aundh, one painting offended him. It showed the pregnant mother of Shivaji Maharaj painted in such a way to indicate that the infant was a reincarnation of Lord Shankar. He thought it unwise to deify an individual.[62] He favoured the idea of conveying instructions personally, a custom that persists till now in the Sangh.

The financial arrangements were a borrowing from Indian tradition. It was called Guru Dakshina. Hedgewar wanted some system that would neither glorify the giver nor make the RSS dependent on any particular person. He felt giving should be a voluntary act and performed out of gratitude to the Guru. The Guru was the Bhagwa flag. A special ritual (an adaption of Guru Puja at Full Moon Day at Aashad — July) was begun to inculcate in members complete self-sacrifice to the flag — the Guru.[63]

Despite this involvement, Hedgewar did not totally give up his participation in politics. He was on the Executive Committee of the Central Province Congress Committee (and his colleague in RSS, Appaji Joshi, was its secretary) and attended the 1928 session of the Congress in Calcutta.

On November 9-10, 1929 in Nagpur, Hedgewar called the various leaders of the Sangh to meet together and there it was decided that the Sangh should have one guide. The various leaders insisted that it should be Hedgewar. Two more all-Sangh officials were also created — Sarkaryavah (General Secretary) and Senapati (Commander-in-Chief).[64] It was quite clear that the Sarsanghchalak was to have absolute power in the organisation. This arrangement is typical of Hindu religious organisations, like the Gurus in monasteries. In 1933, it is recorded that Hedgewar wrote, "It is most essential for a Swayamsevak to obey the orders of the Sarsanghchalak at any stage,

under any circumstances and without any hitch."[65]

Hedgewar's last significant involvement in a Congress activity was his participation in the satyagraha of 1930. He was initially reluctant to participate for he thought that the work of the Sangh would suffer, but was persuaded to get involved by the then most active politician in the RSS, Appaji Joshi, Sanghchalak of Wardha.[66] In the Central Provinces, Satyagraha was observed by breaking the government's forest laws. Hedgewar was arrested at Yeotmal and sentenced to nine months in prison.[67] Prison provided an excellent place to spread the ideology of the Sangh; many of the men arrested with Hedgewar scattered to the various parts of Maharashtra and took the message of RSS with them.

By 1931, the RSS, while still concentrated in Nagpur and Wardha districts, spread into Vidarbha region and the Hindi speaking areas of the Central Provinces. In all, there was 60 shakhas.[68] A branch was started in Benaras in 1931 during a visit of Hedgewar there. The founder of the Benaras Hindu University (Madan Mohan Malaviya) was instrumental in getting the branch of the RSS established inside the campus of the University.[69] A common pattern for the spread of the RSS in the 1930s was for Hedgewar to send out students to universities outside Maharashtra and to have them recruit other students. The student members encouraged lecturers to join. At Benaras, one such lecturer in zoology, Madhav Sadashiv Golwalkar was recruited. He was to become successor to Hedgewar. Hedgewar was much impressed by Golwalkar and soon entrusted RSS responsibilities to him — having him visit shakhas in the Central Provinces and acquaint himself with RSS work.[70] He was entrusted with the management of the annual training camp of the RSS at Akola in 1935, after completing his Ll B degree at Nagpur. It has been suggested to the writer by men close to Hedgewar that Hedgewar had encouraged Golwalkar to complete his law degree for it would enhance his standing in the RSS and give him the reputation of learning required for a leader of the Sangh.

About 1932, student propagandists from the Central Provinces were sent to other places to organise the RSS in various non-Marathi parts of the country. However, success also brought the RSS to the attention of the government. On December 15, 1933 there was a gazette notification that advised government employees not to participate in the activities of the RSS.[71] However, this circular order does not seem to have adversely affected RSS work in Nagpur,[72] where the sons of many government servants made up a very large part of the membership.[73] At about the same time, the government held that teachers in District Council schools should not belong to the Sangh. But these actions do not seem to have adversely affected it.[74] In June 1934, the Congress itself restricted its workers from participating in the Muslim League and the RSS.

The impact of the RSS was soon felt outside Maharashtra, as Hedgewar travelled to various centres in north India and sent out pracharaks (i e, full-time workers) to north India to establish the RSS on a firm footing.[75] There were two major strategies in the spread of the Sangh. One, as mentioned above, was for a member to enroll in a college (e g, as in Benaras). The other was for a prominent member of the Hindu Mahasabha (hereafter referred to as HM) to house and introduce Swayamsevak to his area and to people who might become members. Due to this practice, the common opinion arose that the RSS and the HM were related to one another. On the organisational level, this was clearly untrue. The RSS did provide volunteers for HM sessions, and performed marching exercises at HM meetings to spread popularity of the RSS.[76] Much to the dismay of HM leaders, they were never able to use the RSS as a volunteer organisation to aid its activities. Vasant Rao Oak, the founder of the RSS in Delhi and who lived in the HM headquarters there for some time has mentioned that many HM leaders expected the RSS to be a subsidiary of the HM. He felt that this was not possible, primarily because the HM began to participate in politics and "dirty infighting" took place within it.[77]

On June 21, 1940 Hedgewar died after a long illness. His successor was Madhav Sadashiv Golwalkar named thirteen days after the death of Hedgewar, on July 5, 1940. Some recent writers in Maharashtra claim that "Appaji" Joshi, a RSS leader in Wardha, expected to be the next Sarsanghchalak and that many RSS cadres were surprised at the choice of Golwalkar.[77a] Golwalkar was born into a Karhada Brahmin family in Nagpur, February 8, 1906. His father was a clerk in the Post and Telegraph Department, and later a teacher in government schools in the Central Provinces. Golwalkar passed his matriculation examination in 1922. He joined the missionary Hislop college in Nagpur. At this college, Golwalkar was highly incensed at the 'open advocacy' of Christianity to the detriment of Hinduism. Much of his concern for the defence of Hinduism can be traced to this experience. In 1924, he left the Central Provinces to join Benaras Hindu University where he took his B Sc in 1925 and M Sc (Biology) in 1927. Between 1927 and 1930, he devoted much of his time to the study of yoga and abyasa, in which he became quite proficient.[78] In 1931 he was appointed a lecturer at Benaras University. As related before, he met Hedgewar on a trip to the University. The two men were immediately attracted to one another. In 1931, Golwalkar was appointed the Sanghchalak of the Kashi (Benaras) branch of the RSS. Encouraged by his parents and Hedgewar, he returned to Nagpur in 1932 to study law. Hedgewar gave him important responsibilities in the RSS. He was appointed Karyavaha of the central branch in Nagpur; was sent to organise the RSS in Bombay; was in charge of an officer's training camp in Akola. From his youth, Golwalkar was interested in religious philosophy and practised asceticism. At Nagpur he was a regular visitor at the Ramakrishna Mission Ashram.[79] In July 1937 he went to Bengal to the Ashram of Swami Akhandanandaji[80] to accomplish Sadhana as a yogi. The Swami died on February 7, 1937. Golwalkar returned to Nagpur.[81] A Sangh pamphlet says of his experience, "It had also brought to him the realisation of 'self' which is the *sine qua non* for knowledge of the eternal and ultimate truth."[81] This was another way of saying he had learned the secrets of yoga. His parents had hoped he would become a grihastha (householder),[28] but he had decided to devote himself to society as a worker in the RSS. Hedgewar gave him some of the most responsible tasks.[83] He translated the "Speeches of Swami Vivekananda at the Chicago Conference" into Marathi and wrote a book on the philosophy of the RSS, "We or Our Nation Defined."[84] Hedgewar on his dying bed selected Golwalkar to be the next Sarsanghchalak, passing up many older colleagues.[85]

Between 1940-48, the RSS membership increased rapidly and it expanded into almost every province. By 1939 the Sangh had some 500 branches with 60,000 members.[86] The Government of India prepared a comprehensive file on the activities of the RSS during the Second World War which reveals the spread of its activities.[87] In 1943, RSS membership was estimated to be 76,000 in British India alone, of whom approximately one-half were in the Central Provinces, 20,476 in Bombay and 14,000 in Punjab, the third centre of its activities.[88] Officer training camps were held at eleven different places in India. The largest at Poona had 2,000 volunteers.[89] The camps will be discussed in greater detail. Suffice it to say here that camps were begun by Hedgewar in the late 1920s to train various grades of officers. Camps were held in the provinces for the initial two levels of training. The third and highest level camp was held at Nagpur. Such camps normally last a month in the summer. There are several different types of other camps held during the year.

Two concerns were prominent in RSS thinking during the War. One was the protection of the Hindu community should the Japanese invade India. Secondly, the preparation for the post-War period and the communal problems that would likely develop concerned the leadership. It governed the RSS decision not to anger government in a way which might lead it to impose a ban. To prevent the dissolution of an organisation which they believed necessary for the defence of Hindus in the hard days ahead, the leadership attempted not to antagonise the government. Part of this strategy was to scrupulously avoid any political activity and any help to the HM. Many militant swayamsevaks disagreed with this policy. Gopal Godse, a former RSS member and brother of the man who assassinated Gandhi, told the writer that, "...with the change of [RSS] leadership in 1940, a change came over the working relationship between the Hindu Mahasabha and the RSS. This was primarily because the new leadership of the RSS could not pull on well with leadership in HM. Nathuram Godse and others felt that this lack of involvement in politics that had come over the RSS was not helpful to the Hindu cause and decided that more militant Hindu volunteer groups must be organised. Hence, in 1942, the Hindu Rashtra Dal was formed."[90]

Both Muslims and Hindus organised para-military groups during the 1940s in anticipation of a fight for the control of India after the War. The Hindu Rashtra Dal formed by the Godse brothers in Maharashtra was one of the larger and more militant of the Hindu groups. Punjab and Maharashtra were the locations of most of these groups. A Home Department Fortnightly Report[91] stated in 1939:

> "These [militant] groups continue to multiply. The stock excuse for each successive formation is the alleged certainty of civil war in the Punjab when war is declared in Europe and the necessity for each sect and community to assert itself.
>
> "The rapidity of growth, both in numbers and in organisation, of these volunteer bodies is typified by the *Rashtriya Aikta Dal* (Political Unity Militia)... On the 13th August about 500 uniformed members of this body, armed with pickaxes, arrived in Amritsar in lorries, and uniting with the local *Aikta* and *Angi Dals*, held a procession in military formation through the city."

The Report mentions similar organising by Muslims, particularly of the Khaksars. In Maharashtra, one of the most visible of these militant groups was the Ram Sena, organised by B S Munje.[92] Some of these para-military groups were explicitly organised to fight the British. Many of the others, however, proffered loyalty to the British and sought the government's support in anticipation of communal warfare which they expected. For example, in forming the Ram Sena in Poona in 1940, Munje stated, "It [Ram Sena] will strengthen the hands of Provincial Governments to take timely action and put down rebels and peace-breakers with an iron hand."[93] Much to the dismay of HM, the RSS did not co-operate in this or other HM efforts to get Hindus enrolled in the militia.[94] After 1937, Vinayak Damodar Sarvarkar had a pre-eminent influence in the HM. He put priority on the militarisation programme advocated by Munje. Golwalkar's predecessor, Hedgewar, had put a high priority on military training in the Sangh. After 1940 this virtually ceased.[95]

Fearful of the internal consequences of the proliferation of these para-military groups, the British Government on August 5, 1940, enforced an ordinance banning military drill and uniform.[96] By and large the RSS complied, though the Home Department files contain several instances of non-compliance On April 29, 1943 Golwalkar distributed a circular to the members abolishing the Military Department of the RSS. His wording is interesting,

> "...we discontinued [items included in the ban],...to keep our work clearly within bounds of law, as every law abiding institution should ...Hoping that circumstances would ease early, we had in a sense only suspended that part of our training. Now, however, we decide to stop it altogether and abolish the department wholly without waiting for the times to change."[97]

The government prepared a comprehensive survey of the RSS in 1943 to determine if more stringent action should be taken against them. At one place in the file, an officer states: "There has been persistent non-observance of the ban on the wearing of uniforms and the performance of drill of a military nature."[98] The general approach of Golwalkar and his chief associates was extreme caution and doing nothing that would bring down the wrath of the British government. As a result of an analysis of its activities, the report on the RSS states, "On the basis of available information, however, it would be difficult to argue that the RSS constitutes an immediate menace to law and order..."[99] Comparing Golwalkar to the leader of the militant Muslim Khaksars, the report states, "...while Hidayatullah is an unbalanced and blustering megalomaniac, Golwalkar is wary, astute, and therefore by far the more capable leader."[100] One thing does stand out in the report and that is the rather rapid expansion of the RSS in Punjab and the Hindi speaking provinces of north India.[101] However, the Home Department did advise the Government of Madras that they (Home Department) felt that a government servant under GSC Rule 23 should not participate in a political movement, and that RSS was a political movement.[102] This advice was distributed to all the provincial governments. However, RSS materials and the Home Department Report both clearly indicate widespread support from government servants during the War period. The Report also shows that both the enforcement of this rule and the ban on military drill and uniform varied from state to state. The RSS did not provide an opportunity for the government to impose the anticipated ban. During the major violence in India accompanying the Quit India movement in 1942, the Bombay Home Department reported, "....the Sangh has scrupulously kept itself within the law and, in particular, has refrained from taking any part in the disturbances that broke out in August, 1942...."[103]

(To be continued)

Notes

1 The RSS has gradually expanded its conception of culture to include practically all aspects of life. At its inception, its activities were limited to character-change and reform. Since 1948 its scope of activity has expanded into many other fields, such as politics and student organisations. It conceives of itself as the educational lighthouse for a series of organisations which subscribe to its ideology and use cadres trained by it.

2 Reprinted in B Pattabhi Sitaramayya, "History of the Indian National Congress", Vol 1, Delhi, 1969, pp 202-3.

3 *Ibid*, p 200.
4 See M R Jayakar, "The Story of My Life", Vol I, Bombay, 1958, pp 390-403 for discussion of the special session from the perspective of the opponents.
5 At Calcutta, the Maharashtrian followers of Tilak tried to persuade delegates to support Babu Arvind Ghosh, a former Bengali revolutionary who accepted Tilak's extremist views, for presidency of Congress. K B Hedgewar, the founder of the RSS, and his political guru (B S Munje) travelled to Pondicherry to persuade him to get back into active politics. Since 1910 Ghosh had retired from politics and was leading the life of a sanyasi in that French enclave. He refused to re-enter politics. See Narayan Hari Palkar, "Dr K B Hedgewar", Poona, 1964, Translated from the Marathi by Mrinalini Dhavale, pp 64-5.
6 See letter of resignation in Jayakar, *op cit*, pp 405-6.
7 Quoted in Sitaramayya, *op cit*, p 205.
8 Palkar, *op cit*, p 2.
9 *Ibid.*
10 This is reported in "The History of the Freedom Movement in Madhya Pradesh", Nagpur, 1956, pp 46-7.
11 *Ibid*, p 56.
12 For a discussion of position of Brahmins in 19th century, see Maureen L P Patterson, "A Preliminary Study of the Brahmin versus Non-Brahmin Conflict in Maharashtra", (MA thesis, 1952) pp 70-5.
13 Palkar, *op cit*, p 5. Hedgewar's biographer records a certain rebelliousness of the young Hedgewar towards the strict rules and rituals of Hindu orthodoxy. Hedgewar was later to renounce many principles of orthodox Hinduism. *Ibid*, p 10.
14 *Ibid*, p 14.
15 *Ibid*, p 15.
16 Ibid, p 36.
17 *Ibid*, p 41.
18 In 1921, there were 230 akharas in Nagpur Division, almost two-thirds the total from the Marathi-speaking areas of the Central Provinces. In the 1931 census, the number more than doubled to 570. "Census of India, Vol II, Central Provinces and Berar, Part I — Report", Appendix B.
19 Palkar, *op cit*, p 59.
20 *Ibid*, p 61.
21 *Ibid.*
22 *Ibid*, p 66.
23 *Ibid*, p 69.
24 *Ibid*, p 70.
25 *Ibid*, p 73.
26 *Ibid*, p 78.
27 *Ibid*, p 79.
28 Jayakar records the consternation among the Maharashtrians when they saw (like-minded) nationalists like Lajpat Rai and C R Das converted to the Gandhian view. Jayakar, *op cit*, p 420.
29 It has been argued that this revolt and its subsequent anti-Hindu aspects were the result of a class conflict between the Moplah workers and the largely Hindu landlords. Whatever the cause, the AICC in its meeting in November 1921 condemned the excesses committed by the Moplahs. Sitaramayya, *op cit*, p 220.
30 By the end of the year there were some 20,000 in jail. Sitaramayya, *op cit*, p 223.
31 Subhas Chandra Bose, writing in the "Indian Struggle, 1920-1942", "No one could understand why Mahatma should have used the isolated incident at Chauri-Chaura for strangling the movement all over the country." Moreover, he claims that Gandhi's principal lieutenants, Deshabandhu Das, Motilal Nehru, and Lala Lajpat Rai shared this resentment.
32 Jawaharlal Nehru writes in his autobiography, "There had been no lack of volunteer organisation even before the formation of the Hindustani Seva Dal in 1923, both for organisational work and for gaol-going. But there was little discipline, little cohesion." He goes on to express dismay about the opposition of leading Congressmen to discipline volunteer organisations. Jawaharlal Nehru, "An Autobiography", Bombay, 1962, pp 120-1.
33 Palkar, *op cit*, p 105.
34 *Ibid*, p 104.
35 Appaji Joshi, perhaps Hedgewar's closest friend, wrote this in *Tarun Bharat*, Poona, May 4-5, 1970. Translated from the Marathi by Shridhar D Damle.
36 Among those attending were Madan Mohan Malaviya, Babu Bhagwan Das, Ghanshiam Das Birla, Jawaharlal Nehru, Babu Purushotam Das Tandon, Munje, etc. *Leader*, August 22, 1923.
37 *Ibid.*
38 *Ibid.*
39 Palkar, *op cit*, p 117.
40 "Samagra Savarkar Wangmaya", Volume VI, Poona, 1964, contains an English version of the manuscript.
41 *Ibid*, p 74.
42 *Ibid*, pp 71-3.
43 Palkar, *op cit*, p 131.
44 *Ibid.*
45 Joshi, *op cit*, mentions that several Congressmen joined the RSS, including himself.
46 See Jayakar, "The Story of My Life", Vol II, Bombay, 1959, pp 665-6.
47 Joshi, *op cit.*
48 Palkar, *op cit*, pp 138-9.
49 English translation in Home Department Files, p 11 or no 28/3/43 (Pol I). This particular oath was first used in 1928. RSS leaders today suggest that this translation into English is wrong. More particularly, they maintain that the sentence "whatever defects of the Sangh . . ." was not in this oath. This sentence is not in the present Hindi oath administered to members.
50 Palkar, *op cit*, pp 139-40.
51 In Maharashtra, the RSS is still considered a Brahmin organisation.
52 Palkar, *op cit*, p 143.
53 See Kenneth Little, "West African Urbanisation", Cambridge, 1956, p 87.
54 Palkar, *op cit*, pp 143-4.
55 *Ibid*, p 192.
56 *Ibid*, p 191.
57 *Ibid*, p 135.
58 *Ibid*, p 141.
59 This letter was at Hedgewar Bhavan headquarters of RSS in Nagpur. Future reference to such letters will be listed as HF. This letter was dated June 28, 1932.
60 See footnote 51.
61 Palkar, *op cit*, p 186.
62 *Ibid*, pp 342-3. Hedgewar was opposed to having his own picture taken. He felt that the RSS should not place "undue" importance on any individual. It was not until 1942, after the death of Hedgewar, that pictures of RSS leaders were widely distributed in the RSS shakhas.
63 *Ibid*, p 187.
64 *Ibid*, p 208
65 *Ibid*, p 210.
66 *Ibid*, pp 218-9.
67 *Ibid*, p 225.
68 *Ibid*, p 255.
69 *Ibid*, p 247. This shakha has continued to be a source of conflict in BHU student politics.
70 *Ibid*, p 267.
71 *Ibid*, p 270. The government raised two objections to the RSS. One, that it was communal and secondly, that it was aiding anti-government political movements in the country.
72 13-2-34 HF.
73 Letter to Gopalrao Chitale on 3-1-33 in Hedgewar Files.
74 *Ibid.*
75 In 1936, there were about 200 shakhas, mainly in Central Provinces and Marathi-speaking areas of Bombay Province.
76 At the 1938 HM session in Nagpur, Hedgewar was a member of the reception committee and the RSS put on an impressive military display for the delegates. The HM head office at New Delhi released a news item for members which read, in part, "Apart from the Session itself, the biggest attraction that will draw large crowds of visitors to Nagpur will be the annual military winter camp of that mighty organisation — the Rashtriya Swayamsevak Sangh — the only militant and well-disciplined force of Hindus." From Savarkar File — released on 5-12-38. A Report in Home Department's Fortnightly Reports mistakenly notes that the RSS was the volunteer organisation of HM, Home Pol (I) 18-4-42. But in 1938, Hedgewar wrote to Bhaurao Kulkarni 22-9-38, Hedgewar Files, that, "The RSS Swayamsevak member can join HM individually, but the RSS cannot take part as an organisation." The extent of lack of co-operation can be seen in a letter to S L Mishra from the Presidential Office of HM (Savarkar Files) that RSS members were working against the interest of the HM in many localities. He suggests the founding of separate HM youth corps in those areas.
77 Interview with Vasant Rao Oak in Delhi, September 4, 1969.
77a For example, see a series of articles in *Sobat*, July and August issues, 1970.
78 *Organiser*, October 23, 1948.
79 For a biographic sketch, see "Shri Guruji, the Man and His Mission — On the Occasion of His 51st Birthday", New Delhi, 1956.
80 One of eleven disciples of Ramakrishna Paramahamsa.
81 "Shri Guruji, the Man and His Mission . . .", *op cit.*
82 He was the last surviving of nine children.
83 He was in-charge of the Nagpur Officer's Training Camp, the most important camp in RSS; also established the Sangh in Calcutta, and accompanied Hedgewar on various inspection trips, and was Sarkaryavaha Secretary-General.
84 "Shri Guruji, the Man and His Mission", p 13. There is some debate on whether Golwalkar was the actual writer of "We or Our Nation Defined".
85 It is customary in Hindu polity for the leader to handpick his successor. This custom has been formalised in the 1949 Constitution of the RSS.
86 A report in *Mahratta*, August 25, 1939, from a speech of Golwalkar at a Gurupuja Ceremony in Nagpur.
87 File no 28/3/43 Pol (I) of the Home Department.
88 P 9 of Report.
89 *Ibid*, p 10.
90 Interview on May 13, 1969 in Poona. Godse however admits that the RSS workers now take a more active interest in politics than in the 1940s. Many former RSS members mention the spiritualisation of the RSS after 1940. Many left it for this reason. So intense has this charge been that Appaji Joshi, who many thought would be the successor to Hedgewar and who is reputed to have been a militant, felt it necessary to write an article in *Tarun Bharat*, Poona, May 4, 1970, to emphasise that Golwalkar's policies policies were the same as Hedgewar's, from whom Golwalkar had received his training.
91 18-8-40 Home Pol (I).
92 Munje in 1937 had also opened a military academy in Nasik to train Hindus for the officer corps in the Indian army. This scheme received the formal approval of the Viceroy, Linlithgow. Among its objectives were, "To give instruction to Hindu youth, by all appropriate and lawful methods, with a view to quicken and arouse their latent instincts for martial pursuits." Home Political (I), 4-37-/1937.
93 *Mahratta*, February 16, 1940.
94 In private correspondence, Shankar Ramchandra Date, a member of the All-India Working Committee of the HM from 1945 to 1952, attributes a major part of the rift between the RSS and HM to the disagreement over the recruitment policy of the HM.
95 Munje in 1939 estimated that there were some 50,000 members in Hindu para-military organisations. Munje Files in Nehru Museum 3/1939.
96 The ruling imposed under Defence of India Rule 56 (I) gave the government the power to control parades and camps by requiring organisations like the RSS to take out a license to hold either parades or camps. Government of India Rules 58 (I) and 59 (I) covered drill and uniforms, respectively.
97 Home Pol (I) 28-3-43.
98 *Ibid.*
99 *Ibid.*
100 *Ibid.*
101 Three provinces are referred to as not having RSS branches — Assam, NWFP, and Orissa. The two provinces with the bulk of membership were divided in their view of the RSS "danger". In separate reports, the Central Provinces proposed drastic action against the RSS whereas the Bombay government did not think their activities were any threat to law and order. Three governments out of the provinces surveyed favoured more stringent measures than those already in force, namely, Punjab, Central Provinces, and Ajmer-Merwara. The Central Provinces proposed (1) a complete ban on any form of drill, (2) a ban on all forms of uniform, (3) a ban on camps. *Ibid.*
102 *Ibid.*
103 *Ibid.*



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THE following is an extract from the Statement by the Chairman, Shri H T Parekh, circulated to the Shareholders with the Directors Report and Accounts for the year ended December 31, 1971.

This is my first statement to you as Chairman of the Board of Directors of the Corporation. As members are aware, this Corporation has been ably guided by Mr G L Mehta as its Chairman during the last thirteen years. He has seen the Corporation through difficult times; and under his able guidance the Corporation has made remarkable progress and has prospered. I am sure all of us will miss him as Chairman, though his guidance will continue to be available to the Corporation as a Special Adviser. While no one can succeed him in the multifarious tasks he performed, it has fallen on me to become the Chairman of this Corporation. I am conscious of the heavy mantle that has fallen on me, which I feel I shall be able to carry only with your co-operation.

*

In many respects, the year 1971 has been an eventful year in the political sphere. Political uncertainty, caused by a fluid party situation in the Lok Sabha, was ended when the mid-term elections, held in March 1971, gave a substantial majority to the Indian National Congress led by Mrs Indira Gandhi. Unhappily, immediately afterwards, the country was faced with a large influx of refugees from East Bengal as a result of Pakistan army action. In the subsequent turmoil which ended in a short conflict between India and Pakistan, a new sovereign country, Bangladesh, has emerged, and sufficiently secure conditions have been created to enable the return of refugees to Bangladesh.

Growth Potential Not Exploited

It is unfortunate that we cannot report similar progress on the economic front. In most respects conditions for rapid economic advance were maintained in the economy. The 1970-71 harvest produced a record foodgrain output. Deposit mobilisation by banks has continued at a rapid pace, and banks have been able to reduce their indebtedness to the Reserve Bank and be in a position to supply credit liberally. India's exports have continued to increase at the planned pace, and the foreign exchange situation, despite reduction in aid and uncertainties, has remained satisfactory. These are all factors conducive to a rapid growth of the economy.

Yet, there are visible signs that the pace of economic growth had begun to decelerate during the last two years. Industrial production increased by 7.1 per cent in 1969 and 4.6 per cent in 1970. In the first six months of 1971, the growth rate had trickled down to 1.8 per cent, and several indicators suggest that there has been no improvement in it in subsequent months.

Bangladesh Problem

At one point of time Government was concerned about the slow pace of growth, but political events compelled it to concentrate its energies on the task of solving the Bangladesh problem. Understandably, Government has been concerned with the fiscal implications of supporting almost 10 million refugees, and has had to bring in measures, mainly surcharges on existing taxes, to raise additional budgetary resources. Given the heavy cost of feeding and maintaining the refugees which has been met only partially by the tax effort, the budgetary deficit, originally planned at Rs 227 crores for 1971-72, is likely to be much higher. This has reduced Government's capacity to deal with the deteriorating industrial situation.

The recent conflict with Pakistan has, however, again shown the inherent capability and maturity of the Indian economy. A concerted military effort requires the backing not only of the armaments industry but of all sectors — agriculture, industry, communications — of the economy. This has been one of the factors in the success of our military effort, and provides justification for the development strategy followed by India during the last twenty years.

*

There is little doubt, however, that the initial impulse to growth given by planning had worked itself out by 1965-66 and that the economy, in the absence of a fresh stimulus, has been drifting since then. The recovery in agricultural output has failed to prove to be the trigger of growth, which it was initially expected to be. The formulation of the Fourth Plan which was expected to set definite directions of growth has itself, as the mid-term appraisal shows, failed to take off.

*

The problem of economic growth has to be tackled at two levels: the short-term one of using existing resources and capacity fully and the long-term one of accelerating the secular growth rate of the economy. Both these aspects need the attention of our policy planners.

In the short run, the major problem is in the industrial sector. In agriculture as a whole (though not in all parts of it) as also in the tertiary sector (except for the railways), progress has been satisfactory. In other words, the short-term problem is essentially a sectoral one.

Industrial Recession

When the industrial recession set in around 1965-66, it was attributed to poor agricultural harvests. However, the recession has outlasted the bad agricultural seasons, and even the small acceleration in the growth rate noticed in 1968-69 has slowed down to a trickle by 1971. Rates of unutilised capacity in industry range from 60 per cent for railway wagons to 20 per cent for castings.

The country has invested a large amount of resources, domestic and imported, in establishing these industries, and it can ill-afford to see such capacity remaining under-used. Many of these industries — railway wagons, cast iron spun pipes, electrical goods — depend upon governmental authorities for their market.

Perhaps, the initial expectations on the basis of which the capacity was established, have not been fulfilled; perhaps, there has been a major shift in the free demand pattern since the Third Plan targets were set. Yet there is little doubt that the need-pattern of the country has hardly changed: the goods that are not being produced, despite the existence of manufacturing capacity for their production, are neither luxury goods nor unrelated to the development needs of the country.

The objective of planning is to adjust the demand for goods to the resources available in the economy so as to maximise resource utilisation and growth. Having established capacity in specific industries whose products are needed in the country, it is desirable that policy measures are taken to create adequate demand for these goods.

If demand is stimulated in these industries, it is likely that some shortages of raw materials and components will emerge. Under our planning strategy, many of these products like steel are reserved for the public sector.

Consequently, the efficiency with which the public sector units are run is vital to the health of the economy. In some industries, steel supply is a direct constraint on growth of output. Moreover, the poor performance of public sector units has been responsible for the strain on budgetary resources and consequent increase in taxation and deficit financing in the economy.

Finally, even in a situation of excess capacity in some industries, shortages have begun to emerge in other industries like paper, caustic soda, soda ash, scooters and passenger cars, and are likely to emerge in other industries like cement. It is necessary that immediate steps are taken to expand capacity in these industries.

Short-Term Measures

For the immediate short-term problem, therefore, the Government needs to take measures in three directions: firstly, it needs to take steps to stimulate demand in industries having excess capacity; secondly, a concrete programme to make public sector units run on efficient lines needs to be formulated; and thirdly, steps to increase capacity in sectors where shortages exist need to be taken. In many respects, the short-term problem before the economy is not so much of raising resources as of better management of resources available in the economy and some husbanding of scarce foreign exchange resources, now that aid prospects have become more sombre.

*

It is not sufficient to tackle only the short-term problem; it is also necessary that we devote our attention to the problem of resuming the process of growth on a long-term basis. In some respects the long-term problem is more complex in as much as expansion is needed in all sectors of the economy, and resources are not adequate to achieve simultaneous expansion in all sectors at the required rate.

Long-Term Strategy

A five-year plan has to be set within a long-term perspective of growth and we need to lay down a clear strategy for long-term growth. Some propositions in determining such a strategy can be clearly enunciated. Firstly, it is necessary that we precisely define the relative rates of growth for agriculture and industry in the long-run; in our prevailing conditions, it is imperative that the rate of growth in industry should be much faster than that in agriculture. Moreover, industry must be developed on the basis of domestic resources and, to the extent required, on imports financed by exports. Our country has large reserves of iron ore, bauxite and (inferior grade) coal; these must become lead sectors in our development strategy. Then again, we need to work out a clear energy policy, setting out a balance between solid, liquid and nuclear fuels; a committee is presently inquiring into this problem and its recommendations would be valuable in evolving a long-term policy on the subject. We need, besides, to formulate a long-term transport strategy, enunciating a definite policy regarding the relative roles of railway and road transport. On the ground of both its employment and its multiplier effect, it would be economically justifiable to lay greater emphasis on road transport in future. Finally, the country needs to get into growth sectors — automobiles, electronics, petrochemicals, sophisticated industries — if it is to maintain its position in the international community.

*

When we are seeking to bring about a structural change in the economy, it is industry which must carry the main burden of the change. Consequently the strategy of industrial growth is a crucial factor in the long-term development of the economy.

Resources for Industrial Growth

Our main resources for industrial growth lie in iron ore, bauxite, design and fabrication facilities and educated and technical manpower. In these respects, we enjoy a major advantage which we have to make use of. It is our failure to make full use of this potential since 1960 which is responsible for the present slowdown in industry.

In the last one year, an attempt has been made to revive interest in investment in steel industry and plans for three new steel plants, two mild steel and one alloy steel, have already been announced. While preliminary work has commenced on these plants, it is necessary that a clear programme of steel development is laid down. I suggest that in addition to the new capacity already announced — doubling of the Bokaro plant and the establishment of three new steel plants — preparation be begun to instal, by the end of the Fifth Plan, additional 5 million tonnes steel capacity. Excluding the first phase of Bokaro, this will involve an additional investment of Rs 2,500 crores. The total capacity would then amount to about 21 million tonnes steel ingots by 1978-79.

In the sixties, we added 125,000 tonnes to our aluminium production capacity. We have already developed two major sites for aluminium production and one more is under development; each one of these sites should provide a nucleus for an ultimate 150,000 tonnes aluminium complex. In addition, we have three other smaller sites under production, and one under development. By the end of the Fifth Plan, we need to build up firmly an annual capacity of 600,000/700,000 tonnes aluminium. This will involve a total investment of about Rs 500 crores.

Both these industries can be the source of further processing and fabrication of a wide variety of manufactures. In addition, we need to develop further a range of modern industries — automobiles, petro-chemicals, electronics and so on. We are only making a beginning with these industry groups. The impact of automobiles in developing ancillary industries and facilities is considerable. Petro-chemicals are capital-intensive but they provide a cheaper and more economic base for many products — fertilisers, plastics and so on. We are making a hesitant beginning in electronics,

developing not only consumer products like radio and television but also sophisticated goods like calculators, computers and control instruments. Television is not only a source of entertainment but is likely to have as great a social impact on the population in this century as railways had in the nineties. The development of these industries should provide the broad framework for keeping our economy in step with international developments in the industrial field.

During the last twenty years, the country has built up considerable design facilities as also technical training facilities. This industrial infrastructure though intangible is our most precious asset and only with a fast pace of industrial development we can hope to utilise these assets fully and to our advantage.

*

The experience of the past twenty years shows that plan formulation is not enough; it is equally necessary that an efficient machinery for plan implementation and follow-up is established. It is in this field that development banks can play an important role in respect of industrial investment. While planning can lay down broad industrial targets, these targets have to be translated into viable industrial projects which are efficiently implemented.

Although an entrepreneur plans a project, it is a development bank which, in the process of financing it, vets the project and provides for a second independent assessment of its viability. Development banks do not seek to reject projects but endeavour to remove their shortcomings so as to improve their viability. Moreover, once a project is approved, development banks try to follow it at the execution stage thereby providing a constant check on the progress of the project.

Thus, financing is a function independent and outside of project planning and implementation. The recent use of development banks in financing public and joint sector units is a recognition of this independent service which development banks provide. It is necessary that development banking is strengthened to fulfil these tasks.

*

This Corporation has always been conscious of its broader role in the industrial development of the country. It has consistently tried to broaden the range of its functions to serve the needs of the economy fully. It has provided finance in the past to a large number of non-traditional industries, new processes, new products and new entrepreneurs.

During the last two years, the Corporation has sought to play an active role in financing small enterprises and in financing projects in backward areas. This year, the number of small units financed by the Corporation comes to 17 and the amount of finance provided to Rs 41 lakhs, largely in foreign exchange.

The amount of finance so far provided to industries in the backward districts amounts to Rs 33.62 crores. It is expected that with the announcement of concessional terms of finance for industries in backward districts, the flow of finance to these regions would increase. A problem we have come across is that potential entrepreneurs are not aware of the wide range of concessions now available from Governments and financial institutions. To remedy this, the Corporation has already brought out a brochure outlining the diverse incentives provided by all India institutions and the Central and State Governments for industries in backward districts.

The Corporation has actively participated along with other all-India financial institutions in industrial surveys of various States. These surveys have been useful in identifying the industrial potentialities in various States and in establishing close contacts with various State Governments. It is expected that these surveys will be a source of future projects emanating from these States.

In the coming years, as industrial development gathers momentum, these attempts — to build up new entrepreneurs, to foster industry in backward regions — will bear fruit in new projects, in financing which development banks will make vital contribution. On behalf of this Corporation I would like to state that we are willing and ready to play our part fully in this development effort.

*

Income from interest, dividends, underwriting commission and other sources amounted to Rs 1,152.59 lakhs in 1971 (Rs 1,016.57 lakhs in 1970). Interest paid on loans and other expenses during the year amounted to Rs 817.51 lakhs (Rs 713.39 lakhs in 1970). Profits before tax amounted to Rs 335.08 lakhs (Rs 303.18 lakhs in 1970). Out of this, provision for taxation has been made at Rs 155.81 lakhs (Rs 134.92 lakhs in 1970). Of the balance of Rs 179.27 lakhs (Rs 168.26 lakhs in 1970) carried to the appropriation account, Rs 104.27 lakhs (Rs 105.57 lakhs in 1970) has been transferred to the General Reserve, Rs 30 lakhs to Reserve Against Doubtful Debts (Rs 30 lakhs in 1970) and Rs 45 lakhs (Rs 43.50 lakhs in 1970) to Special Reserve; in addition, the whole of the capital gain of Rs 48.69 lakhs (Rs 33.39 lakhs in 1970) after taxation has also been transferred to Capital Reserve Not Available for Dividend. The Directors are glad to recommend a dividend of 10 per cent (including 10 per cent proportionately on partly paid shares) (10 per cent in 1970).

Finally, I would like to mention that this Corporation has continued to receive from its staff devoted service, I take this opportunity to express my sincere thanks to them.

Bombay, February 10, 1972

British Agriculture

AGRICULTURE currently employs 2.7 per cent of the British working population — one of the lowest proportions in the world. Yet these less than 700,000 people, counting employers and employees, produce more than their proportion of the GNP. The EEC's average agricultural population is around 14 per cent and it accounts for something like 8 per cent of the combined GNPs of the Six.

British farms and market gardens produce half of Britain's total food needs from about 31 million acres of land (France has 82 million acres of farmland) from which more than 50,000 acres are eroded annually by development schemes, new roads, reservoirs, power stations, etc, as population and living standards rise.

Agricultural productivity has raised yields of cereals and sugar beet by around 80 per cent since 1939. On average Britain now gets over 32 cwt of wheat per acre from the land, compared with a Common Market average of 26.4; 10 tons of potatoes per acre (EEC average is 9.2 tons) and about 824 gallons of milk per cow yearly (714 in the Common Market).

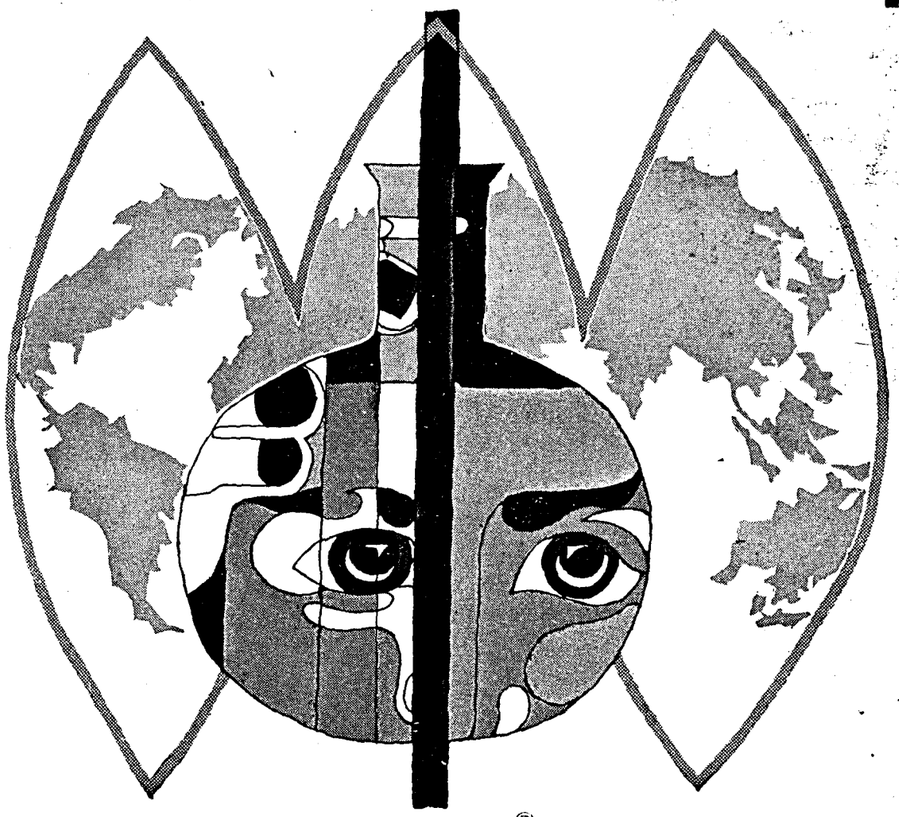
In addition to supply so much of home needs, the British agricultural industry makes a valuable contribution to the British export drive. In 1970 agricultural commodities to the value of £203 million were exported.



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Fiscal Sums

THE Budget for 1972-73 has the appearance of presenting the results of a few simple sums worked out in the Finance Ministry. It could not have been otherwise, perhaps. To what purpose and how well the Budget as an instrument of economic management is used must necessarily depend upon how well defined are the government's objectives and how much thought has been given to the alternative means of achieving them. Thus the consequences of the holiday from economic policy-making that has now stretched over a number of years is to be seen most starkly in the Budget for next year. If no economic strategy appears to inform the fiscal proposals, that is because in the year or so since it was returned to power the government has paid scant attention to evolving one.

The apparently impressive increase in the Plan outlay, which is claimed as the outstanding feature of the Budget, probably emerged as a by-product of the Finance Ministry's arithmetical exercises. The additional taxation measures introduced in instalments in 1971 were expected to yield some Rs 320 crores; these together with buoyancy in receipts from customs duties, reflecting primarily the increase in imports, and from income and corporation taxes, market borrowings larger than the Budget provision to the tune of Rs 126 crores and the shortfall in developmental expenditure (about the extent of which the Finance Minister is unnecessarily coy) enabled the government to finance a larger expenditure to the extent of Rs 417 crores on refugee relief, the war, assistance to Bangladesh and natural calamities (as usual, ubiquitous in an election year) with an increase of only Rs 152 crores in the size of the budgetary deficit over the Rs 233 crores envisaged in the budget presented in last May. The new taxes imposed last year are expected to yield Rs 500 crores this year; this plus a modest fresh tax effort, which is to yield Rs 133 crores as the Centre's share, have made it possible for the Finance Minister to provide for a 23 per cent increase in the budgetary allocation for Central and Centrally-sponsored Plan schemes in 1972-73, from Rs 1,455 crores to Rs 1,787 crores, while keeping the deficit at Rs 242 crores, or more or less the same as originally envisaged in the last Budget. The Central sector Plan outlay is further boosted by the Finance Minister taking credit for, first, a 41 per cent increase, from Rs 368 crores to Rs 520 crores, in the internal resources of public sector enterprises and other resources available for the Central Plan, including borrowing from financial institutions and contributions by the Reserve Bank out of retained earnings, etc, and, second, a more modest 19 per cent increase in the outlay on the Plans of the states and the union territories, from Rs 1,440 crores to Rs 1,666 crores. Taking the Centre and the states and union territories together, the total Plan provision for next year shows an increase of Rs 710 crores or 22 per cent, from Rs 3,263 crores to Rs 3,973 crores.

"A substantial increase in Plan outlay of this order", the Finance Minister believes "would be a major factor contributing to economic growth over the coming months". This is because "it has been our experience that an increase in Plan outlay in the public sector is a prerequisite for revival of industrial production whether in the public or in the private sector". If one could take the Finance Ministry's arithmetic at its face value, one might say that this does represent a change in approach from that of a succession of budgets which sought, through a variety of concessions and incentives, to make the tail of private sector investment wag the dog of industrial growth. So, if the government has now come round to a better appreciation of the importance of the level of public investment, one can have no quarrel with that.

But how seriously are we to take the Finance Ministry's arithmetic? Scattered statements in the latest Economic Survey, such as that "once investible funds are available, minor adjustments can be taken care of" or that "it is the fiscal barrier which needs to be pierced first", are likely to exaggerate the importance of the impressive increases in Plan allocations under different heads proposed for next year. The fact is that in each of the three years of the Fourth Plan so far, the budgetary allocations for the Plan, modest as they have been, have remained substantially unspent. The extent of underspending in the current year the Finance Minister has chosen not to disclose, but the Economic Survey reveals that in 1969-70 the actual outlay on organised industries in the Central sector fell short of the budgeted figure by almost 26 per cent; the situation hardly improved in 1970-71 when the shortfall was of the order of 23 per cent. The corresponding shortfall in outlays on transport and communications in the Central sector was 19 per cent and 12 per cent, respectively, in the two years. The Budget for next year provides for a 19 per cent

increase in the Central sector outlay on industries over the Budget provision for 1971-72, a 17 per cent increase in the outlay on transport and communications and a 40 per cent increase in that on power. The increase will be steepest in the outlay on schemes which, as the Finance Minister puts it, "combine an element of social welfare with future growth potential". These schemes, on which the outlay is to be stepped up from Rs 130 crores to Rs 240 crores, include programmes for expanding employment in the rural areas and for providing jobs to the educated unemployed on which even the Finance Minister admits a significant shortfall in outlay in 1971-72, leading him to the conclusion that "provision of finance" is by itself not enough and that "timely preparation and selection of projects and speedy implementation are equally important". But obviously this is as true of industry, transport and communications and power as well; and from the known preoccupations of government departments in recent months it does not appear that the work of project preparation and selection in any of these areas is at a stage as to hold out the prospect of effective and full use of the larger allocations in the Budget for 1972-73.

So much for the arithmetic of the higher Plan outlay. The Finance Minister has forestalled criticism of his failure to attempt anything noteworthy in the field of direct taxes with the promise to bring forward a Taxation Amendment Bill later in the year incorporating the recommendations of the Wanchoo Committee. Similarly, he has evaded the problems posed by the parlous state of centre-state financial relations by invoking the impending appointment of the Finance Commission. It is now generally accepted that the overdrafts of the states on the Reserve Bank are a consequence of the phenomenal increase in the indebtedness of state governments to the centre which in turn has stemmed from certain basic defects in the pattern of Central assistance to the states. Instead of seeing things in this light, the Finance Minister has unfortunately contented himself with the assertion that he would take steps to ensure that "overdrafts are not used in future as a continuing mode of financing state expenditures". This partial approach to the problem is unlikely to work, as it has not in the past.

There are other issues which the Finance Minister has refused to face. There is the question of the foreign exchange implications of the proposed step up in public sector outlays and the increase in private sector investment they are expected to induce. The strain is bound to be felt in the country's import bill, which has already risen quite sharply this year, and though the Budget expects net receipts from external assistance to be lower by Rs 95 crores in 1972-73, there is little concern in evidence of the need to better regulate imports. On the export side, even the Foreign Trade Minister has now conceded the element of statistical inflation in export figures after the change in the basis of recording exports effected in November 1970; at the same time, the whole system of export subsidies is now in as bad a state as it was in the middle sixties. Here again the Finance Minister has chosen to leave things alone.

Finally, there is the question of the growing stocks of foodgrains, mainly wheat, with the Food Corporation of India. Both the Economic Survey and the Finance Minister's Budget speech view these stocks essentially in terms of storage space, costs and financial requirements of carrying and the subsidy which has to be provided by the Central government, given the present procurement and sale prices. Neither seems concerned about the possibilities of using the food stocks to support investment, particularly in employment-oriented schemes about which both are otherwise so enthusiastic. Very clearly, after four successful cereal harvests, and with a fifth one in the offing, the government still has few ideas on how to harness this partial success in agriculture to quicken the pace of growth of the economy and expand employment.

With such large gaps in the government's economic thinking, it is plainly unrealistic to look for much more than figures and arithmetic in the Budget.

Railways

Stuck in Budgetary Mire

TIME and time again, Railway Ministers have made more or less identical speeches to introduce their budgets, generally showing railways in the red and adjusting rates to reduce deficits. This year's budget is distinguished by the fact that it comes at the end of a year when the anticipated loss of Rs 6.87 crores turned into a surplus of Rs 9.08 crores — thanks, really, to the timely relief of Rs 21.53 crores offered by Parliament on the basis of the Railway Convention Committee's Interim Report. It must be noted that the Railways, by this latest measure have: (a) been exempted from payment of dividend on capital-at-charge of unremunerative branch lines and of the non-strategic portion of the Northeast Frontier Railway as also on over-capitalisation; (b) been exempted, for a period of three years, from payment of dividend on capital outlay to the extent of 25 per cent, annually, when work is in progress; and (c) become entitled to payment of interest, at current dividend rate, on fund balances with the General Revenues. These are sizeable concessions and the 1972-73 budget will benefit by Rs 22.19 crores on this account. There will, nevertheless, be a budgetary gap of Rs 16.50 crores for 1972-73. Hanumanthaiya's claim that, unlike in the previous five years, he will not borrow from General Revenues to bridge the gap, since it "increases our liability by way of paying interest . . . nor is it sound financial policy", but will "find the sum mostly by rationalisation of the present structure of freights and fares", is less than laudatory in this context.

The 'rationalisation' has simply meant an upgrading — rather than the pretended 'reclassification' — of the existing freight structure, without really disturbing the relativity among items. Predictably, foodgrains including pulses, coal and coke, and iron and manganese ores intended for export, have not been touched. The revenue thus earned will be Rs 12.67 crores. Parcels and luggage traffic rates will be made to yield Rs 2.5 crores more. Modest increases in upper class, first class, airconditioned, and suburban 'season' passenger fares will yield an additional Rs 17 crores. So 1972-73 is budgeted for a surplus of Rs 0.5 crores.

Higher freight, closing down of 'uneconomic' branch lines, and cutting down of capital outlays, are pet options of the Railways in their bid to balance budgets. The Rs 250-crore cut in the Railways' Fourth Plan has been reduced, as a result of its improved fortunes and the Mid-Term Appraisal, to Rs 125 crores. This enables the acquisition of Rs 37 crores worth of additional rolling stock, Rs 60 crores worth of on-line capacity works, and construction of some new lines during the rest of the

Plan period. The much-talked-of conversion to the uni-gauge system is to be carried further this year. The "Review of the Performance of the Indian Railways" gives further aggregative figures about locomotives per 1 mn tonne-km of freight traffic, engine-km per engine-day on line, wagon-km per wagon-day, and traffic density.

Yet the fact is that it is possible neither to condemn nor to praise the Railways by such aggregative data and budgetary exercises. Railway revenues are the outcome of monopoly as well as utility pricing, so that the final profit and loss account does not lend itself easily to public scrutiny. Yet, if this major public undertaking is to meet the need of public accountability, then a series of disaggregated performance standards and reports need to be designed. It is in this that both the Railways' management and the parliamentary watch-dogs have dismally failed. Criticisms of the Railways have centred on the corrupt and lethargic bureaucracy, the poor maintenance and extension, and the financial deficits. However, while railways have operated in a seller's market, they have also operated as a public utility — providing the necessary long-distance haulage at cheap freight for the priority primary commodities which also form the bulk of the revenue-earning tonnage — and have lost on the short-distance hauls and the 'smalls' to competing road transport (which, incidentally, does not bear the capital cost of road construction). This makes it difficult to compare their operations with that of a private monopoly. The railways' bureaucratic anomalies and predilections may have something to do with the origin of the Indian Railways as a means to empire administration rather than to economic and industrial growth. On the other hand, one is struck by the similarities in the management of major public sector undertakings.

This, of course, is not to absolve the Railway authorities of their primary responsibility for the mire in which they have been bogged down. Railways are known to collect and keep a wealth of data and statistics, but these are not utilised to any purpose of operations research. The much-recommended computerisation — to which railways' operations could well lend themselves — is pointless without a long-term management perspective of needs and specific goals. Accounting procedures need to be changed to yield independent profit and loss statements so that the Railway authorities themselves can have a clearer picture of the viability and necessity of various lines, stations, and items carried. It is only against the background of such knowledgeability that optimum use and turnover could be ensured of the existing equipment, and yardsticks for administrative performance formulated. Aggregative increases and decreases of the type shown today mean nothing unless related to specific accounts and planned growth. Until this is done, the Railway Minister will necessarily, and absurdly, continue to blame all and sundry: the British for the multi-gauge system, last year, and this year, the war and the political parties that unleash movements that do damage to Railway property.

Gujarat

What the Centre Wanted

Our Correspondent writes :

WHAT little suspense there was about the election results has ended, and so has Indira Gandhi's anxiety over Gujarat. The Congress has secured not only a majority but at least 20 more seats than was expected by the GPCC. Swatantra, which was the main opposition party before the fall of the Hitendra ministry, has been completely wiped out. The Communists, in any case, never mattered in Gujarat. Much of the PSP — the one Left party which had some standing — had already merged with the Congress. Its leader Sanat Mehta, it appears, will be rewarded with office. The Jan Sangh was expected to secure at least half a dozen seats, but ended up with just three; the victory in the war with Pakistan seemed to deprive it of its rationale. The newly formed labour party, constituted by the Majoor Mahajan trade union leaders, was nipped in the bud and the Majoor Mahajan may now have second thoughts about breaking away from the Congress-controlled INTUC.

The only element of surprise in the election results was that Congress(O) secured only 16 seats — as against the expected minimum of 30. On the eve of elections, the prospects for the party had not looked so bleak. It was expected to benefit from the continued faction-fighting in the Congress, from the individual standing of its candidates, from the support given to it by the Majoor Mahajan, and from its own established grassroots and campaign organisations. Now, with hindsight, it seems clear that in the face of the overriding instinct of the herd to follow Indira's imminent success, Congress(O) did not have a chance.

As a majority for the Congress was a foregone conclusion, attention in Gujarat was soon focused on the selection of the Chief Minister. The group formations within the GPCC meant that there were five candidates in the race — Ghia, Adani, Chimanbhai Patel, Jashwant Mehta (ex-PSP) and Chokhawala. Patel and Adani (in that order) had the best chances given their respective strengths among the newly elected MLAs. They were followed by Ghia and Jashwant Mehta. However, since Patel was willing to rally behind Ghia, the latter's chances greatly improved as soon as the election results came out. Jashwant Mehta, on the other hand, threw his lot behind Adani. Thus, if the MLAs had their choice, the fight would have been between Adani and Ghia. Chokhawala was marginally involved with scattered supporters in all the factions. But everyone knew that all such support was finally irrelevant. In Gujarat, all the GPCC leaders had, long before the elections were held, surrendered in writing not only their right to elect the CM but also the right to have a CM nominated from among them. The suspense was thus not as to whom the MLAs would elect but what the Prime Minister would decide.

Since neither Ghia nor Adani was willing to give up his claim, it was clear that the PM would favour an 'outsider' to the faction fighting. Ghanshyam Oza was the evident choice.

The two plus points of Oza, for being selected for the Chief Ministership, are his aloofness from existing groups in GPCC and his administrative experience first as a Minister in the Saurashtra government headed by Dhebar in the early fifties and more recently as Minister of State for Industrial Development at the Centre. Oza has had a long public career, but has also avoided being any politician's protege. Perhaps that is why after Saurashtra was merged, first with Bombay and then with Gujarat, Oza was not given office. He continued, nevertheless, as a quiet but conscientious parliamentarian, who could be neither harmed nor helped since he did not seem to seek position or protection.

However, these qualities do not make a dynamic and firm Chief Minister who is today required in the troubled and faction-ridden state of Gujarat. Now that there is no opposition party worth the name, the factions within the party will become significant. If Oza has remained aloof from the groups within the GPCC, he has also been out of

(Comments continued on page 606)

Summary of Receipts and Disbursements

(Rs crores)

	1970-71	1971-72 BE	1971-72 BE	1972-73 BE
Revenue receipts				
Tax revenue	2451	2717	2901	3356
Non-tax revenue	891	1010	1180	1120
Total revenue receipts	**3342**	**3727**	**4081**	**4476**
Revenue disbursements				
Defence expenditure	1051	1079	1248	1219
Developmental expenditure	459	554	542	610
Grants to States and Union Territories	612	783	959	880
Other expenditure	1056	1171	1359	1416
Total revenue disbursements	**3179**	**3587**	**4107**	**4124**
Revenue surplus (+) deficit (—)	**+163**	**+140**	**—26**	**+352**
Capital receipts				
Internal debt (net)	239	165	292	216
External debt				
Non-PL 480 (net)	238	324	367	363
PL 480 (net)	94	126	102	11
Small savings	184	180	210	230
Other unfunded debt	159	62	54	74
Repayment of loans	923	930	1294	1029
Other capital receipts	210	236	267	172
Total capital receipts	**2046**	**2024**	**2587**	**2094**
Capital disbursements				
Defence expenditure	148	162	163	190
Development expenditure	605	685	880	736
Loans and advances				
States and Union Territories	1028	966	1214	1098
Others	525	587	638	769
Other expenditure	188	—4	51*	—105**
Total capital disbursements	**2494**	**2396**	**2946**	**2688**
Surplus (+) deficit (—) on capital account	**—448**	**—373**	**—359**	**—594**
Overall surplus (+) deficit (—)	**—285**	**—233**	**—385**	**—242**

* Includes Rs 70 crores for transfer from the Consolidated Fund to the Contingency Fund.

** Includes a credit of Rs 70 crores as transfer from the Contingency Fund to the Consolidated Fund.

Plan Outlay

(Rs crores)

	1970-71 BE	1971-72 BE	1972-73 BE
I Central Sector	**1411**	**1688**	**2062**
Met from Central budget	1076	1312	1624
From internal resources of Public Sector undertakings	216	233	275
Centrally sponsored schemes	119	143	163
II Union Territories	**76**	**65**	**62**
III Central assistance for state Plans	**635**	**720**	**720**
Total	**2122**	**2473**	**2844**
Central Sector Outlay by heads of development			
A Met from Central budget	**1195**	**1455**	**1787**
Agriculture and allied programmes	123	267	278
Irrigation and flood control	5	5	5
Power	58	62	88
Industry and minerals	449	454	545
Transport and communications	362	398	465
Social services	182	251	385
Other programmes	16	18	21
B Met from internal resources and other sources	**216**	**233**	**275**
Power	21	28	38
Industry and minerals	99	97	109
Transport and communications	93	108	128

Proposed Plan Outlays and Actual Expenditure (Public Sector)

(Rs crores)

Items	1969-70 Proposed Outlay	1969-70 Actual Expenditure	1970-71 Proposed Outlay	1970-71 Actual Expenditure
Iron and Steel	207.5	178.0	209.9	117.8
shortfall in expenditure (per cent)		14.2		15.3
Heavy Engineering	16.7	10.0	14.4	9.9
shortfall in expenditure (per cent)		40.1		31.3
Mines and Metals	67.2	39.1	74.8	55.5
shortfall in expenditure (per cent)		41.8		25.8
Chemicals and Fertilisers	88.8	77.0	100.3	68.2
shortfall in expenditure (per cent)		13.3		32.0
Other Industries*	168.1	10.38	187.3	140.7
shortfall in expenditure (per cent)		38.3		24.9
Total	548.3	407.9	586.7	452.1
shortfall in expenditure (per cent)		25.6		23.0

* Include electricals, paper, cement, petroleum, plantations, textiles, shipping, atomic energy and loans to financial institutions.

Analysis of Development Expenditure

(Rs crores)

Heads	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1971-72 BE	1972-73 RE
Revenue Account													
Education and scientific research	49	55	63	76	87	96	112	123	137	159	184	179	213
Medicine and public health	10	10	11	12	15	17	19	22	24	28	32	30	37
Labour and employment	5	5	7	6	8	9	10	10	10	11	20	15	17
Broadcasting	4	5	5	6	7	7	8	10	11	12	14	13	15
Agriculture	17	19	17	19	18	22	27	27	28	38	52	52	74
Industries	44	56	34	37	33	28	28	30	32	35	39	39	44
Export promotion	6	14	7	2	20	43	23	34	42	41	50	54	59
Irrigation and power	1	1	1	1	1	2	3	2	4	14	20	22	17
Public works	8	6	5	6	8	12	9	12	12	13	17	16	13
Transport and communications	20	22	21	25	26	27	31	36	41	48	49	50	53
Other services	15	17	24	29	34	38	53	38	45	61	76	71	67
Total development expenditure on revenue account	**174**	**207**	**195**	**221**	**258**	**300**	**324**	**343**	**385**	**459**	**554**	**542**	**610**
Capital Account													
Broadcasting	1	1	1	1	1	1	4	3	2	4	7	6	8
Agriculture	5	4	2	3	3	2	7	7	23	22	24	24	27
Industries													
Iron and steel	7	60	80	86	15	20	79	115	150	57	103	241	29
Other metallurgical industries	2	4	3	1	4	10	15	22	22	33	48	49	31
Machinery and engineering	17	35	39	24	56	50	6	10	3	1	5	85	11
Coal	32	9	9	9	9	14	10	9	14	15	—	3	10
Petroleum	29	41	42	43	14	19	7	3	5	8	7	9	30
Chemicals and fertilisers	1	8	17	8	6	8	21	17	30	32	39	37	59
Other industries	5	5	9	9	13	14	7	16	37	100	26	25	29
Atomic energy	3	4	1	15	31	57	26	37	9	11	24	26	37
Irrigation and power	3	4	9	14	21	17	20	26	37	56	59	60	79
Public works	19	20	20	24	22	15	21	17	18	35	38	38	43
Transport and communications	52	49	73	67	76	54	45	53	55	87	117	103	134
Railways	145	215	261	275	245	161	136	121	94	136	151	152	159
Post and telegraphs	11	21	31	30	31	30	26	27	33	7	39	24	53
Grants*	—	2	18	23	42	39	36	17	2	2	—1	—2	—1
Total development expenditure on capital account	**333**	**481**	**614**	**632**	**579**	**511**	**465**	**499**	**536**	**605**	**685**	**880**	**736**
Total development expenditure on revenue and capital accounts	**507**	**688**	**809**	**853**	**837**	**812**	**789**	**842**	**921**	**1064**	**1238**	**1422**	**1346**

* Other than to States and Union Territories.

Resources Transferred to States and Union Territories

(Rs crores)

	Third Plan (Annual Average)	1966-67 to 1968-69 (Annual Average)	1969-70	1970-71	1971-72 BE	1971-72 RE	1972-73 BE
Shared taxes	**239**	**426**	**622**	**755**	**890**	**945**	**1055**
Income tax	111	169	293	359	421	462	462
Union excise duties	123	252	322	390	463	475	585
Estate duty	5	6	7	6	6	8	8
Loans	628	921	1062	1043	971	1218	1102
Non-Plan			589	550	432	681	566
State and Union Territory Plans			444	462	508	504	497
Central and Centrally-sponsored Plan schemes			29	32	31	33	39
Repayment of loans	190	415	640	670	660	850	760
Net loans	**438**	**506**	**422**	**373**	**311**	**368**	**342**
Grants	**274**	**512**	**598**	**636**	**790**	**965**	**889**
Non-Plan			298	312	410	680	292
State and Union Territory Plans			205	217	236	239	237
Central and Centrally-sponsored Plan schemes			95	107	144	146	360
Total resources transferred (net)	**952**	**1445**	**1641**	**1765**	**1991**	**2278**	**2286**

touch with the prevailing factions and their alignments within the party. He may, therefore, find it difficult to assert his authority over the party and the factions within it. This may compel him to turn to the PM every time there is a crisis in his party — Gujarat will then be governed more from Delhi than from Ahmedabad, which is, no doubt, what Indira would like.

The choice of Oza's cabinet, which includes every faction leader, foreshadows all this. Instead of asserting his preferences, Oza has played safe with the factions, appeasing every one of them. He has distributed the important portfolios equally among the three most powerful faction leaders: Finance to Chia who has no administrative experience worth the mention: Agriculture, Co-operation, and Panchayats to Adani; and Industries and Power to Chimanbhai Patel. The next most important group leaders, Jashwant Mehta and Chokhawala have been given Public Works and Education. The list will no doubt grow to accommodate the minor leaders, whom Oza must also win over to control the party. Signs are, therefore, that Oza will end being more a convenor, than a leader, of the team; or alternatively, that he will do much as the Centre wishes.

Industry

Financiers Have Other Roles

ASSISTANCE sanctioned by the term-lending institutions has picked up impressively recently. Taking IDBI, IFC, ICICI, the SFCs and the SIDCs together, sanctions in the first half of 1971-72 are estimated to have gone up by as much as 38 per cent, from Rs 83.1 crores in the same period of last year to Rs 114.5 crores. The corresponding figures for disbursements are Rs 65.1 crores and Rs 77.4 crores, showing a rise of 19 per cent. There has been a boom in IDBI's operations in particular. During April-December 1971 its sanctions (Rs 135 crores) were more than double those in the same period of 1970 and its disbursements (Rs 76.5 crores) were higher by 50 per cent.

Against this background, the expansion of the ICICI's operations in 1971 may appear to have been moderate. Net assistance sanctioned amounted to Rs 40.50 crores, which was 19 per cent higher than that sanctioned in 1970, and disbursements went up by slightly less than 10 per cent, from Rs 27.62 crores to Rs 30.57 crores. In this context it must be remembered, however, that the ICICI has maintained a relatively steady trend of operations which in its case did not nose-dive in the recession years of 1968-70 as they did in the case of the IDBI, for instance. Besides, the expansion of the ICICI's rupee lending and guarantee business in 1971 was sizeable enough, with both sanctions (Rs 17.47 crores) and disbursements (Rs 8.31 crores) having more than doubled. By contrast, foreign currency assistance, still the ICICI's forte, actually slumped, with sanctions (Rs 26.24 crores) declining by 8 per cent and disbursements (Rs 20.47 crores) increasing only nominally.

The term-lending institutions have by now come to finance, in one form or another, the bulk of the investment outlays undertaken by the private corporate sector. It would be interesting to know what use these institutions make of their unquestioned influence over the private corporate sector to affect the quality and pattern of industrial activity. Do they, for instance, see it as part of their work to influence the location decisions of industrialists — or is that to be left to the passive working of the minor concessions in interest rates and other "incentives" offered by government? G L Mehta, who retired as ICICI's chairman at the end of 1971, had in his annual statement last year referred to the scope for fostering new entrepreneurial talent by discouraging the tendency to make everything under one roof and encouraging certain activities to be hived off and handed over to ancillary units. How seriously does the ICICI itself try to exploit the potential for such development? Or, again, do the term-lending agencies put their foot down on non-functional selling agency arrangements and the like which are merely devices for promoters and managements to make easy money? Similarly, do they force companies with good stock exchange ratings to raise capital in the market even when nominally their equity-debt ratios may entitle them to loans? Finally, what do they feel is their function in relation to incompetent managements? Is it simply to bale them out from time to time with no more than the symbolic appointment of a director or two in return?

In short, the issue is that of the role of the financing institutions in the expansion and efficient working of the corporate sector, apart from that as sources of finance. This is a matter to which these institutions ought to be paying a great deal more attention than they seem to do.

In his annual statement, H T Parekh, the new chairman of ICICI, reviews the economic situation and suggests that the problem of economic growth needs to be tackled at two levels: the short-term one of using existing resources and capacity fully and the long-term one of "accelerating the secular growth rate". In the short run, apart from making public sector units function efficiently, the government is asked to, first, take steps to stimulate demand in industries having excess capacity and, second, increase capacity in sectors where shortages exist. It might be instructive to work out, howsoever roughly, the investment implications of this prescription to match demand to capacity in one segment of industry and capacity to demand in the other. That apart, the existence of excess capacity or of unsatisfied demand need not, surely, always influence the allocation of investment in a planned economy? And how would this type of short-term approach fit in with a long-term strategy which, H T Parekh points out, would involve such matters as determining the relative rates of growth of industry and agriculture and formulation of a transport strategy and a fuel policy? For instance, Parekh suggests that "immediate steps" should be taken to expand capacity in passenger cars and scooters since there is a large unfulfilled demand for both. But this would make no sense if the long-term transport strategy is to expand the means of public transportation at the expense of private transportation. It might be suggested that both should be expanded, but that would be to assume away the whole economic problem of choice and allocation of resources.

Export Receipts

Spotting the Leaks

IN his statement to Parliament, Foreign Trade Minister, L N Mishra, has sought to repudiate what he called the "insinuation" that his Ministry had manipulated export statistics for 1970-71. Unfortunately, the most careful reading of the statement still leaves the impression that the Minister has thrown no light on two specific issues relating to the DGCIS export data for 1970-71, viz, the extent of 'statistical' growth in exports built into the export data for the year as a result of the change in the method of recording exports and, second, the reasons that led to the massive upward revision by Rs 52 crores of export figures for the four months from August to November 1970. Instead, Mishra has gone into such issues as that at the time of releasing the DGCIS export data for 1970-71 in April 1971 he did not have the corresponding RBI figures and that these were not available to him "for several months afterwards". Now, the RBI balance of payments data are based on the duplicates of the GR forms which are sent to the RBI by the authorised foreign exchange dealers. This results in a time lag of 4-5 months in the compilation of RBI data on balance of payments. Thus at no time does the Foreign Trade Ministry get the RBI export figures before releasing the DGCIS figures. This cannot, therefore, be cited as an excuse for releasing inaccurate data.

The changed system of recording exports introduced in November 1970 appears to have caused considerable confusion even in the government. Some within the government accept the RBI figures which show exports to have been stagnant in 1970-71 while others feel that there may have been an export growth of 3 to 4.5 per cent. An expert group headed by B S Minhas, Member of the Planning Commission, has now been asked to sort out things.

One need not dispute the Foreign Trade Minister's statement that it is not possible to compile afresh the export statistics for 1970-71 in a manner fully comparable with those for 1969-70. All the same an effort could be made to estimate the extent of statistical inflation introduced into them. The expert group might usefully undertake a sample survey of finally passed shipping bills for a fairly representative group of commodities at the more important ports. This would indicate the length of the time lag between the date of provisional passing of a bill and final shipment for different commodities at the major ports. On that basis it should be possible to estimate the built-in statistical inflation in the 1970-71 export data. This is necessary for any study of the trend of the country's exports.

The expert group is expected to review the relative merits of the present and the earlier systems of recording exports. Some of the members of the group are said to be in favour of discontinuing the new system and switching back to the earlier one. The change to the new system was made on the basis of the recommendations of an earlier working group headed by P L Tandon, Chairman of the State Trading Corporation. The new system does expedite the compilation of export data with a minimum time lag. It thus serves the useful purpose of providing advance estimates of exports. The value of advance estimates of an important economic variable like exports is obvious enough and so there is much to be said in favour of continuing the present system of recording exports on the basis of provisionally passed shipping bills. For more accurate figures, however, one would have to depend on RBI data compiled from the duplicate of the GR forms.

In addition to these current series of the DGCIS and the RBI, the working group should give serious thought to providing a new export series compiled on the basis of the triplicate of the GR forms which are sent to the RBI by the commercial banks after the foreign exchange receipts are realised by them. After all, the importance of export data rests on the fact that they indicate the likely foreign exchange receipts out of exports. Comparison of the two sets of figures obtained separately on the basis of duplicates and triplicates of GR forms would also help in detecting the extent of foreign exchange leakage that is taking place through non-receipt of export earnings. The committee that went into the problem of foreign exchange leakage sometime back has suggested that duplicates and triplicates of GR forms should be matched to detect loss of foreign exchange.

Woollen Exports

Not Yet Secure

THE export performance of the woollen industry has been improving steadily over the past five years. For instance, from Rs 19.30 crores in 1966-67, the industry's exports rose to Rs 25.47 crores in 1969-70, and further to Rs 32.22 crores in 1970-71. What largely contributed to this rise were the barter agreements with the East European countries, including Russia whose offtake of worsted and mixed fabrics has been steadily rising.

Encouraged by the continuous rise in exports, the woollen industry has projected that its exports will reach Rs 35 crores in 1971-72. It is also confident that its Fourth Plan export target, of Rs 50 crores, would be achieved.

However, neither last year's performance, nor the composition of the demand for the industry's products, nor the organisation of the industry, is such as to warrant such high expectations. The industry's exports during the first nine months of 1971-72 were, at Rs 23.54 crores, higher than the Rs 22.50 crores of the corresponding period of 1970-71, but they were by no means spectacularly better.

It must also be remembered that a sudden fall in the Russian and Czechoslovak orders for woollen hosiery — which account for the bulk of the demand for this item of woollen export — could seriously impair our export prospects, since woollen hosiery is one of the major items in our overall woollen exports. Moreover, competition from countries such as UK, Italy, South Korea and Japan, who have superior technology and easier access to raw material among other favourable factors, is also becoming increasingly severe.

At the same time, the structure of the industry is not such as would make for competitive strength in world markets. Today, the majority of woollen units are either proprietary or partnership units. The number of limited companies are only 14, accounting for about 40 per cent of the spindles installed; and those registered as private limited companies are 16 accounting for 13 per cent of the spindles installed in the industry. The partnership and proprietary concerns account for the remaining 47 per cent of spindleage. The small size of the units is a major constraint to any programme of expansion and modernisation. Such modernisation as has been carried out in the industry during the last 10 years has been restricted to 15 to 20 per cent of the installed capacity in the entire industry. By itself, the industry seems incapable of generating sufficient funds for modernisation. The financial position of even the large woollen textile companies is not very enviable. A study of the financial structure of seven large woollen textile mills has shown that the profitability of the industry, as measured by the ratio of gross profits to total capital employed, declined from 12.1 per cent in 1968-69 to 10.6 per cent in 1969-70 — in which year, the industry's reliance on external sources of finance was about 70 per cent of total funds employed.

Delay in expansion and modernisation will no doubt come in the way of diversification of production, so vital to maintaining the export tempo. For instance, tufted carpets have a good overseas market, but India is not able to take advantage of this market because of the non-availability of up-to-date machinery. Yet Indian wool is suitable for carpet manufacture and if wool is blended with man-made fibre and woven on machines, this potential line of export could be lucrative.

As part of the effort to boost exports and diversify woollen products, therefore, it may be necessary for government to select certain units capable of achieving this at a rapid pace and to facilitate their modernisation.

No More Excuses

Romesh Thapar

ELECTION landslides, however unhealthy, always register one major gain which is beyond debate and controversy. They are mandates for getting on with the job, irrespective of untested, characterless candidates and the questionable practices associated with their rise to power. The so-called "Indira Wave" has given us, overnight, a new bunch of operator-politicians who claim that they are "dedicated" and "committed". These widely-advertised pretensions will be judged rather speedily in the course of the next few years. Indira Gandhi knows very well that she has to perform, or else there will be little more than chaos after her.

Performance does not mean endless touring of the country, mass meetings and carefully-tailored speeches which suggest many and varied things to all and sundry. Performance also does not mean mere statistical growth. Performance means a plan of action which changes, surely and steadily, the dreadful living patterns of our people. In other words, performance demands a drastic alteration in administrative practice and bureaucratic procedure to create a society which is totally different from the present selfish middle class dream. We have had enough of slogans. We now need some fairly detailed work-outs which should quite visibly mark the beginning of the structural transformation.

At the moment, with vital public sector industries incapable of moving beyond 40-60 per cent of production capacity, with nationalised banks fraudulently charging anything upto Rs 6 or 8 to process a cheque for Rs 20 or taking 40 minutes to cash a single traveller's cheque, with economic ministries, at the centre and in the states, in the hands of over cautious generalists who do not have any idea of business operations, and with the Union Cabinet apparently unaware of the need to untangle the paralysing conflicts of ministries in crucial areas, we wonder whether anything is going to happen without an angry explosion by the public. Election landslides should help sharpen this anger. No longer will the ruling cliques be able to trot out excuses for not performing.

Power is now terrifyingly concentrated—indeed, so concentrated that even the few independent voices which could make themselves heard in the vicinity of the Prime Minister may be stilled. Indira Gandhi should watch this growing silence with apprehension. The silence could be disastrous for her; it would isolate her from the currents and cross-currents. Already a *durbari psychosis* is discernible in the Capital's political circles. Of course, we may never really experience the cult of "The Leader", because the economic crisis is too raw to permit this awful luxury of political and economic underdevelopment.

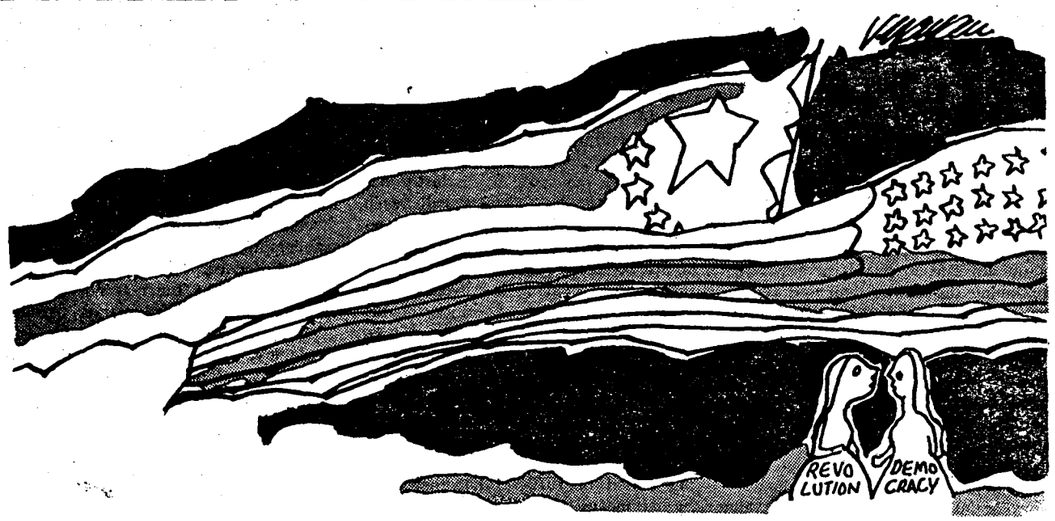
It should be possible to assess the new determination in the course of the next few weeks. We will soon have the Budget to give us an idea of the kind of economic thinking that prevails. After the "fixing" of the governments in the states, the Union Cabinet will have to be reshuffled and restaffed. A major change in the bureaucratic hierarchy is also on the agenda. The familiar stratagems, remedies and inputs no longer have relevance. It is this stubborn fact which puts the skids under the GOI. How many at the summit of power realise this?

To give you an idea of how difficult life is in the ruling party these days, I can only report the following. An economist urges that black money must be hit or else the system will flounder. The ruling politician agrees wholeheartedly. But the truth of today is that black money is the fuel that keeps the ruling party dominant.

Then there is the ban on company donations—that progressive measure we all helped to sponsor. The donations now come in the shape of advertising in non-existent journals! Wait until an irate shareholder investigates. He will find that the Union Ministry of Company Law (*sic!*) worked out this one.

And so it goes on. Those who are wedded to action and performance will need all the luck in the world to prevent lazy landslides turning into angry avalanches. Expectations are roused as never before. The belief is general that Indira Gandhi will honour her promises. She will have to. No more excuses . . .

March 13



"Did you say future shock, dear?"

LETTERS TO EDITOR

Foreign Technology

THE comments by S Venu on Baldev Singh's review of the NCAER study on foreign technology (February 26, 1972, p 492) remind one of G K Chesterton's statement in one of his essays that in this curious world of ours one could find factual proof for supporting whatever stand one wanted to take. In India, one would be able to muster enough evidence to support one's contention on either side. In the precise context of foreign technology this is literally true. Venu is lucky to have witnessed the kind of phenomenon that he mentions in his letter. Others, not so lucky, have found much truth in what Baldev Singh says. The question is that when all kinds of data are available supporting contrary stands, how should one see the truth? One apparent way is the number on both sides. By this criterion, Venu cannot perhaps sustain his case.

Unlike Venu, I know of a case of a foreign firm now operating in India which not only wanted to import the same technology all over again but also wanted the Indian enterprise not to compete with firms established by this firm in other countries. Repetitive imports of similar technology and all kinds of conditions attached to collaborative ventures in this country have created the type of opinion that Baldev Singh indicates. In fact, the government moved in rather late and at a time when considerable harm was already done to the economy by various kinds of stipulations entered in the collaboration agreements. In the circumstances, Baldev Singh has done well to contest the stand taken by the NCAER on the issue, pro-business as it is. In this respect, one feels that collaboration agreements alone are not an adequate basis for such a study. Each such agreement would require a deeper probe into the background to bring to the fore factors that led to the selection of parties abroad, influences that played some part and the analysis that was made of the economics of the collaboration in each case as it was placed before the government or other public agencies for clearance.

I think there is scope for a more comprehensive inquiry into the subject.

PARESHNATH CHATTERJEE

Calcutta

From Slogans to Action

YOU have done well to underline the lamentable fact that the present Assembly elections are being fought on the basis of personalities and factions and not any programmes and policies. It is indeed a tragedy that after 25 years of democratic experience, elections in our country are yet fought on the basis of personalities and images of a few national leaders, and no attempt is made to educate the voter.

Any casual observer of the election campaign will realise that the ruling party has endeavoured to hold the elections while the sweet memories of the victory over Pakistan are fresh in the minds of the people. This must be seen in the light of the fact that a ceaseless endeavour is on to sell the idea to the nation through posters, banners, etc, that a handful of national leaders and the ruling party are responsible for our victory. Not discounting the leadership of the ruling party, one must note that the victory in the conflict with Pakistan is not a personal or party victory, but a national victory, in which every Indian has had some hand.

The major failure of the opposition parties lies in their inability to form a viable alternative to the ruling party. If the latter sweeps the polls again, it is not due to some policies or programmes, but merely because there is hardly any opposition worth the name. Indira Gandhi has taken the winds out of the sails of the CPI and CPI(M) with her own brand of socialism. The Jan Sangh in spite of a fairly disciplined organisational cadre has failed to generate any enthusiasm among the masses. The Swatantra has realised that it has a bleak future. But the saddest plight is that of the Old Congress. The party has failed to come up with any concrete programme or policy of action. Many who stayed with the party during the split are now deserting it, disillusioned.

An opposition functioning in a democracy can adopt two patterns of behaviour :

(1) It can take the initiative and present a viable alternative to the ruling party, and educate the people in its policies and programmes.

(2) It can tailor its own stand and position according to the current mood.

The majority of our parties fall in the second category. Socialism has become the election-plank of every party in India. Even the Swatantra has started talking of 'twentieth century socialism'! Nor did the opposition parties show any maturity when they controlled the levers of powers in eight states after the fourth general elections. In five such states Congressmen headed the governments. All this is a sad commentary on the maturity of our political parties.

The fact that practically all lists of the Congress (R) candidates from all the states had to be sent to New Delhi for approval speaks volumes for the intense concentration of power at the highest levels. In many cases the faction-mongering made it inevitable for the Prime Minister to intervene personally. One can hardly hope for any administrative and organisational decentralisation under the present state of affairs.

The real danger for the future is that year after year our people are being misled by the slogans and speeches of frivolous politicians. One of the strongest pillars of any democratic society is an educated society that can judge and evaluate policies and issues on merit. This cannot be created in India as long as the politician has a vested interest in keeping the average man ignorant and ill-informed and in nurturing him on emotional slogans and speeches. Instead of mouthing slogans like "Banish Poverty", it will be more sensible if we quantify our national goals, formulate concrete short-term and long-term goals and plans in terms of growth rates, increases in per capita income, etc. It is high time we got down to some serious work and put a stop to the frivolity.

RAJENDRA K ANEJA

Bombay

NEW DELHI

Fiscal Barrier to Growth

THE Budget for 1972-73 will have been presented by the time these lines appear in print. It would be pointless therefore to speculate on the Budget. The Economic Survey, presented to Parliament on the opening day of its current session, contains a pointed analysis of the economic situation and the challenges which the Budget should be expected to meet. With the commanding position of the ruling party at the Centre, now reinforced by the results of the assembly elections, it is but natural to expect that these challenges would be met. The Economic Survey concludes by pointing out that the "challenge of rapid economic development . . . cannot be met merely by sound economic management. It has to be met also at a much deeper social, political and institutional level". With the state elections, the decks have been cleared for the political leadership to come to grips with problems at all these levels. Whether it is able or willing to do so is, of course, another matter.

Wider Issues

The Economic Survey repeatedly emphasises the need to accelerate the tempo of economic development. This is in contrast to the slogan-mongering about 'social' objectives which has been the principal feature of policy discussions in the last few years, even as economic development was neglected. In focusing attention on accelerating economic development, the Survey pinpoints the basic issue when it says that "it is the fiscal barrier which needs to be pierced first". The Survey pointedly brings out the fact that it is paucity of public savings, and the consequent sluggish public investment, which have been the major brake on economic, particularly industrial, growth. According to the Survey, "what is seriously impeding industrial growth is neither procedural difficulties nor policy restraints but the general dearth of savings. Since investments in the public sector have been pivotal for generating momentum elsewhere in the economic system, it is the paucity of public savings which, more than anything else, is frustrating current attempts at a large-scale industrial breakthrough".

The problem of the fiscal barrier cannot be tackled without facing a whole range of related issues of economic management and policy. The government's current savings have gone down sharply in spite of large increases in taxation. If the Finance Minister on an earlier occasion spoke of the narrowing of the scope for direct taxation outside the rural sector, the Economic Survey now contends that the scope of indirect taxes is also getting increasingly narrowed, "because of the difficulty in devising a system of incidence which would leave the general price level unaffected and impinge relatively less on the weaker sections". Meanwhile, the scope for deficit financing and monetary expansion, specially after the large-scale resort to these devices to meet the emergency situation in 1971-72, is clearly very limited. The Survey repeats the argument for tapping the incomes being generated in the rural sector. The presentation of the problem in the Survey would seem to suggest that piercing the fiscal barrier is not so much a problem of levying additional taxes as of evolving a comprehensive strategy of development and a policy-frame for management of the economy.

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Going Soft on Foreign Capital

Instead of the usual chapter on balance of payments and foreign aid, the Economic Survey this year has a chapter on external assistance and self-reliance. This deals almost entirely with external assistance on government account. However, the discussions at the recent meeting of the Indo-British Technological Group show how much importance some officials attach to private foreign capital in the context of the decline in government-to-government assistance. That the forum of the Indo-British Technological Group was used to announce major concessions to foreign private capital underlined the improved state of political relations with the UK and also the reliance placed on assistance from the UK, now that relations with the USA are strained.

When the concessions were announced by the Secretary to the Department of Industrial Development on the first day of the meeting of the Group, it was suggested that they were of relevance only to the inflow of fresh private capital from abroad for setting up 100 per cent export-oriented units. The offer was that in the event of a foreign investor wanting to set up a unit in India whose production would be entirely exported, the bar on import of equipment and machinery available indigenously would not apply and import of complete plants would be allowed. Foreign firms are also to be allowed to set up wholly-owned subsidiaries in such cases. The British side, it appears, reacted to these offers without much enthusiasm and made it clear that it was more interested in the application of these concessions to British firms already operating in India. In the course of the discussion, the Indian side conceded this argument and even accepted that present restrictions on expansion of foreign firms, unless they accepted the obligation to export at least 60 per cent of the additional production, were too rigid. What started as a specific export commitment was diluted to a general understanding that foreign firms operating in India should be more helpful in promoting exports. The controversy over repetitive import of technology and payment of fees by foreign subsidiaries on that account too appears to have been resolved with the Indian side offering to take a more flexible attitude in the matter.

These concessions, which facilitate collaboration deals between Indian and foreign private parties as well as the expansion of firms controlled by the larger houses, are believed to have been made at the initiative of the Industry Ministry and certain officials of the Finance Ministry. It has been suggested that they have not been specifically approved by the Cabinet. It has also been suggested that some Ministers, among them some who are members of the newly constituted Economic Affairs Committee of the Cabinet, do not regard them too favourably. However, it must be said that a liberal policy towards foreign private capital (such as was explicitly spelt out by T T Krishnamachari after the suspension of aid by the USA in 1965) is entirely consistent with the government's anxieties and nervousness over the suspension of aid by the USA.

*

Mercedes Socialism

Some days ago newspapers reported that the government had decided to allow disabled persons to import cars, the suggestion being that this had been done for the benefit of defence personnel disabled in the recent war. In fact, this was only a cover for extending the facility of importing luxury cars to certain other categories of people. Under the modified rules, cars can now be imported by foreign women settled in India as gifts from their parents and by companies which have financial and technical collaboration arrangements with foreign firms, *including public sector companies.* In addition to this, and by way of a seemingly minor adjustment of the rules, the period of ban on resale of cars imported by Indians as baggage from abroad has been reduced.

All this will be of relevance to hardly a few dozen disabled defence personnel in whose name the changes in the rules have been made. The real beneficiaries will be high officials in the government and business executives in the public and the private sector. They will be able now not only to indulge in their fancy for foreign cars but also make tidy profits from resale of such cars. In the midst of all the talk of self-reliance and doing without non-essential imports, these manoeuvres of self-seeking bureaucrats do strike a strange note.

March 14

MAHARASHTRA

New Organisation Men

THE Congress performance in the Assembly elections in Maharashtra does not mark the kind of spectacular improvement over earlier elections that it does in some other states. This is because, except briefly during the Samyukta Maharashtra agitation, the Congress has never been seriously challenged in this state. Even in 1967, when the Congress lost ground in a number of states, in Maharashtra the party bagged 202 out of 269 elective seats in the Assembly. This time it has improved its tally by 20 to capture 222 seats out of 270. What is more, out of the 48 seats it has conceded to the opposition, 16 have gone to 'rebel' Congressmen, contesting as independents. Thus, effectively, the strength of the opposition in the new Assembly is 32. The Congress has snatched away seats from every party, except Jan Sangh which has just managed to retain its strength of 5 in the last Assembly. However, the Jan Sangh's strategy of fielding a very large number of candidates failed and its successes have been restricted to areas where it has done sustained political work.

Opposition Debacle

That the Leftist parties — the Peasants and Workers Party, the two communist parties and the Socialist Party — would fare poorly in the elections had been more or less expected. The Peasants and Workers Party, which had a representation of 19 in the last Assembly, has secured seven seats this time. What is more, even these seats, except two, have come not from its traditional strongholds but from altogether unexpected areas. The party lost all its three seats from Thana, three of its four seats each from Kolaba and Kolhapur and its two seats from Sholapur. It also lost the one seat each it held from Ratnagiri, Poona and Nasik. In addition to the one seat each from Kolaba and Kolhapur, it won a seat in Buldana. It retained its strength of one in Osmanabad and Nanded and improved its position from one to two in Parbhani. Evidently, the PWP, which once had hopes of emerging as the DMK of Maharashtra, has lost Thana, Kolaba and Kolhapur districts, earlier its strongholds.

The Socialist Party, which had an election alliance with the PWP, fared equally poorly. The party had contested over 50 seats, but won only three of them. The Socialist Party had 12 seats in the last assembly (four of the former SSP and eight of the former PSP). The Ratnagiri district was a stronghold of the former PSP. The late Nath Pai used to represent the Rajapur constituency in Lok Sabha. After his death, just before filing of nomination papers for the 1971 Lok Sabha election, the seat was won by the socialist leader, M R Dandavate. The Rajapur Lok Sabha constituency consists of the assembly constituencies of Vengurla, Lanja, Deogad and Rajapur. However, in the recent election the Socialist Party has lost all these four seats. The three seats secured by the party are from Bombay, Mahad in Kolaba district and Purandar in Poona district.

The CPI had won 10 seats in the 1967 election but, as a result of the defection of three of its MLAs to the Congress after the Lok Sabha elections last year and the loss of the Parel seat in Bombay to the Shiv Sena in a by-election, had only 6 members in the assembly on the eve of the recent election. It contested 44 seats, winning two from Ahmednagar district. The loss of both its seats from Bombay city confirms the erosion of the party's once considerable influence over the city's industrial working class. In fact, the experience in Maharashtra, where the Congress refused to have anything to do with it, suggests that but for the party's election alliance with the Congress in some of the states and the few crumbs which the Congress threw its way, the CPI would certainly not have emerged from the recent election with the largest number of assembly seats among all the opposition parties, taking the country as a whole. As for the CPI(M), it has no base to speak of in Bombay city or the rest of the state. All it could do was to retain its solitary seat in the Assembly from Kalamnuri in Parbhani district.

The RPI broke its traditional ties with the Congress this time and contested 121 seats, but could win only two — the same as its strength in the last assembly. The RPI, which professes to be a party of the scheduled castes who constitute 12 per cent of the state's population, could make no impact in the reserved constituencies. The scheduled caste candidates put up by the Congress overwhelmed those set up by the RPI.

The new state assembly has 175 new entrants, 135 of them belonging to the Congress and 40 to the rest. Eightyfive members of the Congress, six belonging to the other parties and two independents have been re-elected.

Not the PM's Charisma

As in the other states, the victory over Pakistan and the personal popularity of the Prime Minister have contributed to the Congress success in the election in Maharashtra. But, unlike in most other states, these factors were by no means crucial, except perhaps in the city of Bombay. The weakness of all the opposition parties has been noted above. At the same time it has to be recognised that the Congress is an exceptionally well organised party in Maharashtra. Its organisational roots reach down to practically every village in the state through its control over panchayati raj agencies like the zilla parishads and panchayat samities and co-operative institutions like district co-operative banks and land development banks. These institutions are invariably manned and controlled by active Congressmen.

Secondly, the state government has done much to improve agriculture, especially in the dry farming areas in the state. The large-scale bunding programmes undertaken by the government per-

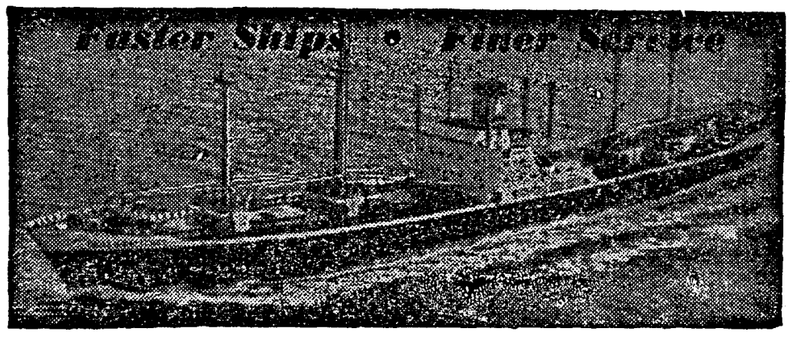
haps have no parallel in the country. These programmes have given employment to several thousand landless labourers. In the last two years the government has, in addition, spent over Rs 50 crores on scarcity relief works and provided employment to lakhs of people. The relief works have been marked by a great deal of corruption and many malpractices — as brought out by B V Limaye and M D Rahalkar in their article in the issue of October 9, 1971 (p 2141) — but by virtue of their sheer scale they have had a definite, if not always lasting, impact on rural poverty.

Control over panchayati raj agencies and co-operative institutions gives the Congress a twofold advantage. First, it puts the levers of power and patronage into its hands. Second, these institutions constitute the recruiting ground for activists for the party. Since the last two general elections, the Congress has relied less upon professional politicians and picked many of its candidates from among the new 'organisation men' emerging from local administrative and economic institutions in the districts. A large number of the Congress candidates in the 1972 elections were those who have acquired skills of running the local administration, executing development programmes and managing economic institutions like co-operative societies, land development banks and sugar co-operatives. At the same time, these are people who are well aware of traditional social forces and adept at use of the caste idiom. There was a time when a party like the PSP could claim to attract the better educated in the mofussil areas of the state. Not any more. The younger Congress activists today are educated far above the average. Entry into the Congress is the natural thing for them, for invariably their parents and elders in the family are already part of the organisation. Inevitably, these younger activists tend to come from a small segment of the rural population, mainly the class of better-off farmers. However, it must be said to the credit of the leaders of Maharashtra Congress, Y B Chavan above all, that they have been aware of this and have tried consciously to broaden the support base of the party among the socially backward castes as well as among the less well-off sections of the rural population.

Opposition's Predicament

By contrast there is practically no recruitment to the opposition parties like the Socialist Party, the CPI and the PWP from among the educated younger generation in the rural areas. The Jan Sangh has made an effort to shed its image of a Brahmin-oriented party and tried to attract a small section of the rural elite which is apprehensive of the Leftist slogans of the Congress. The PWP's ideological pretensions have been thoroughly exposed by its caste sectarianism and its support for the middle and upper peasantry. This section of the peasantry has little reason to support the PWP when it can protect its interests far better through the Congress, the ruling party.

In a sense this is the problem facing all the opposition parties in the state. They cannot hope to beat the Congress on its home ground through use of the panchayati raj institutions and co-operative agencies and by vying for the support of the middle peasantry and the socially advanced castes. Yet the orientation of these parties as well as the background and approach of their leaders makes them virtually incapable of mobilising the segment of the rural population — numerically a large one — which falls outside the pale of government-sponsored development efforts and the operations of panchayat samities, zilla parishads, land development banks, sugar co-operatives and the like. This is perhaps an over-simplification, but it is not without relevance to the predicament of the opposition parties in Maharashtra.



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Copper for Breakfast

Magnus

AS a demonstration of its power, the government could not have done better than to choose the Indian Copper Corporation for nationalisation, but the takeover does raise serious doubts about the government's capacity for logical thinking and objectivity. India is certainly short of copper and last year we spent over Rs 49 crores on copper imports. Indian Copper Corporation has been the sole Indian producer of copper so far. The public sector has been trying for years to start copper production in Khetri and elsewhere, but has failed miserably. What could it do, then, except to takeover the only company which was successful? In the years to come, we shall no doubt hear a great deal about ICC's marvellous performance and even more wonderful targets, but probably less about its profits.

Indian Copper was long controlled, through Gilanders Arbuthnot, by the London mining house known as Consolidated Gold Fields, which has over the years built up a remarkable group of world-wide mining enterprises. About two years ago control passed into Indian hands and G D Kothari became chairman of the company. The company used to produce 9,000 to 10,000 tons of copper metal annually for several years, and only recently increased its capacity to 16,500 tons. Output was around 12,000 tons in 1971, sold in the form of copper and brass. The new smelter — incorporating the advanced Finnish Outokompu process — would also yield 260 tons of nickel sulphate and 10 tons of selenium metal, both of which are imported at present. The company was about to finalise a mining consultancy agreement as well. ICC is also the leading producer of kyanite in India (which in turn leads the world), producing around 75,000 tons every year from its deposit at Lapsa Buru (Kharswan) in Bihar, mainly for export at around £35 c i f Europe.

Government's Motives

The government's motives need to be studied. Apparently it wanted to achieve the following objectives: (i) to conserve copper ore; (ii) to control production and marketing; (iii) to step up copper production; and (iv) to utilise the smelter for the nearby Rakha mine. According to press reports, the Ministry of Mines and Metals also felt the pressure of certain unspecified 'techno-economic considerations', which is simply jargon for a vague feeling of need to have at least *one* copper project which actually produces copper and earns profits. For the rest, it can be shown that none of the above objectives will be served by the takeover.

Hindustan Copper, the public sector company which has been entrusted with management of ICC now, has published copper ore reserves of 266 mn tons, while the figure for ICC is around 4.2 mn tons. The whole of ICC's reserves are only 1.5 per cent in terms of the total tonnage, and 3 per cent in terms of copper content. The grade of ore mined can, moreover, be controlled under the Mineral Conservation Act and Rules, administered by the Indian Bureau of Mines. Secondly, ICC has no control over copper prices, either world-wide or even in India. And if the objective is to step up production, HCL is the last outfit to do it. Its record over the past 15 years is miserable. Khetri is a monument to the public sector's failure, and if it has not received its due share of public blame it is only because it has not yet reached the production stage. HCL's paid-up capital is Rs 50 crores. It has so far spent about Rs 70 crores on Khetri alone, revising its target upward thrice to the present figure of 21,000 tons per year. It has recently taken in hand seven small copper mines simultaneously. For four years it has been trying to re-open the old Rakha Mine. It also wants to produce lead and silver from Agnikundala copper project. Finally, it has graciously undertaken the Sukhinda nickel project. But it has not produced *a single ounce of any metal*, nor will it until 1975 as things stand. Why give a live, producing mine to this sleepy giant?

Finally, if the intention is to use ICC's smelter for concentrates from neighbouring Rakha, ICC's own concentrates would have to be smelted somewhere else, for there is very limited surplus capacity. Rakha aims at 3,500 tonnes per year in preliminary Phase I, and 21,000 tonnes when in full production. Obviously, ICC could handle about 1,500 tonnes on a custom basis for a year or two — for which takeover of the whole complex is quite unnecessary —, while it can do very little about Rakha's ultimate output. Incidentally, this is recognised by the feasibility study for Rakha.

One can only conclude that the Ministry either wants the pre-tax profit of Rs 3 crores very badly, or it has become an addict to takeover activities. When it nationalised the Metal Corporation of India (the Zawar zinc mines complex), it justified itself by saying that the company could not raise sufficient resources to develop its mines quickly. In fact all that the MCI wanted at that time was permission to sell zinc at ruling market prices. The compensation case is still in the courts, after eight years, while Zawar's ore output has 'jumped' from 500 to 850 tons per day as against a target of 2,000 tons. Incidentally, the nationalised company now sells zinc at market prices.

When Kolar Gold Fields were nationalised, in 1956, it was widely thought that Hanumanthaiya bought a dud, more out of personal animus than for any other reason. Much more recent is the acquisition of coking coal mines, also through an ordinance which took over management, while transfer of ownership is to follow at leisure. Coking coal mines were taken over on grounds of inefficient exploitation and unscrupulous management. ICC seems to have been taken over for exactly the opposite reasons — i e, efficiency and good management. One can expect non-coking coal mines also to be taken over very shortly in a similar fashion. Since half of them are inefficient and the others are not, it would be interesting to read the government's eventual justification (techno-economic considerations?) for the takeover when it comes.

No Sense of Priorities

Nationalising a foreign firm is a tricky business at best, and the Ministry seems to have committed an unfortunate *faux pas* by picking a British firm at this point of time. Britain, which has shown a renewed enthusiasm for investment in the country and recently sent a high-powered delegation for that purpose, could hardly be reassured by the present action. A somewhat parallel case under the same Ministry is that of Central Provinces Manganese Ore Co, also British. CPMO was allowed to keep 49 per cent of the new government company when its mining leases ran out about a decade ago. However, in the changed circumstances, CPMO is having a rough time with its last mine, of which the lease finished last year. Antagonising investors in this most difficult of investment industries is wrong policy, as Chile and others are now discovering to their cost.

ICC's takeover will also have a profound effect on the morale of mining engineers throughout the country. Al-

though it is known as a firm and demanding employer, ICC's terms of employment were very good, particularly its termination benefits. In the case of KGF and CPMO, pension and gratuities were drastically cut after government took over — an unfair thing to do to employees of long standing. A mining engineer will soon have nowhere to go but to the public sector, with its dearly Rs 700-1,400 pay scales and with nobody giving a damn about performance. At one time KGF and ICC were mines technically on par with others all over the world, but no more. Entrants to mining courses have already dropped sharply during the past two years, and India is lagging further and further behind world mining technology.

Perhaps the Ministry of Mines is motivated solely by the need to show some action. It would be far better advised to buckle down to the task of pushing its various undertakings in aluminium, pyrites, copper, zinc, coal and lignite to achieve production and profit targets, before venturing further into industries which are already in production and are contributing something to the nation's economy. The government must re-examine its basic premise that in the field of mining and metallurgy it can do better than the private sector, because all evidence points to the contrary. The Ministry, and its enthusiastic Minister, would ill serve national interest if they lose their sense of priorities at this critical time. The compensation price for ICC could have brought another small copper mine into production within three or four years, instead of which one must now watch that amount being disbursed to 26,000 dismayed shareholders. It is all very sad.

GUJARAT

Fuel Policy for Power Generation

Sanat Mehta

GUJARAT, though industrially advanced due to historical reasons, has lagged behind in generation of power compared to many other states. Some states such as Tamil Nadu are going to have all their villages electrified by end of the Fourth Plan. But Gujarat's ten-year perspective plan indicates that in Gujarat it will not be possible to accomplish this even during the Fifth Plan. Many villages will have to wait till the Sixth Plan for electrification. Gujarat has reached a stage when if in the near future a large quantity of power is not made available from an atomic power station or from the Narmada Valley Scheme, the power shortage will reach crisis proportions. Fuel is a big problem for Gujarat in power generation. This is ridiculous considering that Gujarat has been a major producer of gas and oil.

Dependence on Coal

Gujarat has no coal deposits; it is situated far away from the coal fields of the country. The present policy is to fix a price for coal at the pit head and then add transport costs to it. Thus coal which may cost only about Rs 36 per tonne when delivered to power stations in Madhya Pradesh, will cost as much as Rs 70, or almost double, when delivered to a distant power station in Gujarat. It has been argued that this problem will disappear once we have a national grid. But this will take a long time. Though the need to have a national grid has been accepted in principle and a beginning has been made by evolving zonal grids and zonal power plans, the creation of a national grid based on large central generating stations in the form of either giant atomic power stations or massive thermal stations at the coal pit heads or near coal washeries will take at least 15 more years. Power development and fuel requirements will then assume a different pattern as they will come under the control of a central power generating authority. But till then one has to think of state-wise development of power based on a rational policy of fuel utilisation. The present fuel policy is almost chaotic; so one finds residual fuel oil produced by the Gujarat refinery out of crude produced from the Ankleshwar, Navagam and Kalol fields being sent by rail to Trombay in Maharashtra, while coal from Madhya Pradesh and other distant places is being brought by rail to thermal stations in Gujarat. The price of RFO varies from consumer to consumer in Gujarat. Also, natural gas was being flared for years by the ONGC even as power was being produced by coal brought from distant coalfields.

The total power generation capacity at present available to the state is 862 MW. Out of this, except for the 190 MW received from the Tarapur atomic power station and 54 MW from the gas turbine station, the rest comes from thermal stations. If all the power projects included in the Fourth Plan are completed, total generating capacity will reach 1602 MW out of which 1137 MW will be from thermal stations. The picture of power generating capacity in Gujarat as it emerges from the ten-year perspective plan is given in Table 1. Thus at present only 26 per cent of total power generation is by atomic and gas power stations, the rest being by thermal stations. The pattern will not change much by the end of the Fourth Plan as thermal stations will still give 70 per cent of total power. The proportion will go down by the end of the Fifth Plan or in the Sixth Plan if a giant atomic power station is set up and the Narmada Valley Scheme materialises. Assuming that this happens, even then between the Fifth and Sixth Plan periods Gujarat will still need coal to generate 2000 MW of power. This means 18,000 tonnes of coal per day. Converted into train loads, Gujarat will need 15 train loads of coal per day. But if the atomic power station and the Narmada Valley scheme fail to materialise, the number of train loads of coal will rise to 33 per day. This means that every 40 minutes or so one train load of coal will have to reach Gujarat from the coalfields. This is an almost impossible proposition unless a special track is laid right from the coalfields to Gujarat.

Apart from the impossibility of transporting such large quantities of coal, the implications of the dependence on coal for the cost of power generation have also to be considered. The cost of power generation in Gujarat compares unfavourably with that in states like Maharashtra, Tamil Nadu, Punjab, etc, as the following figures show:

State	Cost per KWH (Paise)
Tata/Koyna-Maharashtra	2.50
Punjab	2.90
Bihar	4.00
West Bengal	4.00
Tamil Nadu	4.00
Mysore	4.00
Madhya Pradesh	4.30
Gujarat	7.60

The cost of coal works out to Rs 60 to Rs 70 per tonne at the power stations in Gujarat and the cost of power generation in the state varies from 7.5 to 8 paise per unit. About 40 per cent of the coal required for power generation in Gujarat now comes from the Bengal-Bihar belt which is at a distance of more than 1,200 miles; the other 60 per cent comes from the

Table 1: Pattern of Power Generation in Gujarat

(in MW)

Period	Total Power Generation Capacity	Thermal	Atomic	Hydel	Gas
Present	862	638	190	—	54
Schemes on hand to be completed by end of Fourth Plan (1973-74)	820	520	—	300	—
Fifth Plan period (1974-78)	1606	740	600	266	—
Sixth Plan	1750	1200	400	1150	—
	5038	2018	1190	1716	54

MP coal-belt which is about 600 miles away. It should be evident from these figures that it will be not only uneconomical but almost impossible to plan large expansion of power capacity in Gujarat based on thermal stations. The returns to the Gujarat Electricity Board are already low. According to the estimates for 1969-70, the rate of returns of some State Electricity Boards were as follows:

	(Per Cent)
Andhra Pradesh	8.7
DESU	8.6
Haryana	9.1
Madhya Pradesh	8.7
Maharashtra	9.5
Mysore	7.1
Punjab	8.3
Tamil Nadu	7.4
West Bengal	7.5
Gujarat	6.1

The Central Issue

The choice of fuel for power generation should be, therefore, at the centre of any planning for expansion of power generation capacity in Gujarat. The question agitating the minds of industrialists and commonmen in Gujarat is why Gujarat should not get enough residual fuel oil or natural gas for cheaper power? There has been no consistent and well defined policy on this subject on the part of the Government of India, the ONGC and the IOC. These bodies have followed oscillating policies in respect of both price and supply of RFO and natural gas, as the following examples will show:

(i) The ONGC flared gas even though gas was required for power generation in Gujarat. As per information given in the Lok Sabha, 6,320 lakh cubic metres gas had been flared by September 1966. Even later, on March 31, 1969, it was stated in Lok Sabha that 44.5 per cent of the gas was being flared.

(ii) RFO is being sent to the Trombay thermal station in Maharashtra while the requirements of the Gujarat Electricity Board are not being met, as Trombay pays a higher price to the IOC. Both Gas and RFO are being sold to different consumers in Gujarat at different prices.

(iii) The Petroleum Ministry has indicated that the production of gas will diminish after 1975-76 and so its use as fuel would be cut.

(iv) Though the IOC's Gujarat Refinery daily produces 2,400 to 2,500 tonnes of RFO, Gujarat gets 880 tonnes of RFO for Dhuvaran and a little more for the Ahmedabad Electricity Company.

(v) It is argued that it is profitable to further crack RFO rather than burn it as fuel. Similarly it is argued that natural gas should be used as feedstock for certain industries. These are no doubt very weighty considerations, but the question of getting fuel in adequate quantities and from nearer sources for the ever expanding thermal power generating capacity in Gujarat is also equally important. In any case, no concrete steps have been taken for cracking RFO till this day. And if one starts efforts in that direction today it will be 1976-77 before they fructify, by which time production of Ankleshwar crude would have started diminishing.

(vi) Here it should be noted that only Ankleshwar crude is of high quality. Navagam, Kalol and imported crudes give a very high percentage of RFO. The percentage of RFO out of Ankleshwar crude is only 18 to 20 while that out of Navagam crude is 55 to 58 and that out of imported crude 38 to 40.

Assuming that the need of a cheaper fuel like RFO for power generation in Gujarat is accepted, future requirements of RFO have to be assessed so as to evolve ways and means of ensuring adequate supplies. At present the Gujarat Electricity Board gets 880 tonnes of RFO daily and as per present plans it is likely to get 750 tonnes more for the extension of the Dhuvaran project. The burners of the Dhuvaran extension scheme are designed to fire gas or oil and technically there is no possibility of converting them to coal. This means that at present the minimum requirement is of 1,600 tonnes per day.

As regards the future, the thermal stations of Ukai and Bhat in north Gujarat are already at the designing and planning stage. After 1976 another 200 MW capacity is to be added by way of extension of the Ukai thermal station and another 300 MW will be generated by a new suitably located thermal station. This means that total requirements will reach more than 5,000 tonnes per day. But if we assume that the Ukai thermal station even after the extension envisaged after 1976 works on coal as it is nearer the coalfields and its design is at present based on coal firing, the requirement will be reduced to 3,600 tonnes per day. At present the Gujarat refinery produces 2,400 tonnes of RFO per day and the IOC has announced its decision to raise the capacity of the Gujarat refinery to 5.5 million tonnes. So it seems that there will be no difficulty in getting the required quantity of RFO if a proper fuel policy is evolved.

All these years Gujarat has had to dispute the prices of gas and RFO. The price of gas could not be settled even after the Rao Award. The price of RFO is still in dispute. This can only be settled if a long term fuel policy is evolved which will also put to an end to the policy of ONGC and IOC of pitting private consumers against public undertakings like GEB with a view to getting a higher price from both.

Long Term Fuel Policy

The examination of the various aspects of the power situation in Gujarat attempted above underscores that the time has come to lay down a long term fuel policy not only for Gujarat but for the whole country. This should cover a span of at least 20 years. In the past, various Five-Year Plans have fixed the targets for production of electricity, coal and oil; but these were derived on the basis of other considerations. No attempt has been made to consider what is available and how best to utilise it. In other words, the fuel policy, if any, has been so far need-based and not resource-based.

The recent rise in international price of petroleum crude followed by a matching rise in indigenous crude prices and in prices of petroleum products has provided a jolt. Coal prices have also continued to rise, though more imperceptibly under different pressures, while delivery of coal gets more and more erratic, and the long-term prospects remain clouded in uncertainty.

What is needed is not a piecemeal approach, but a study in depth of the

available resources and a rational plan for their utilisation, coupled with a pricing policy for all fuels. Only thus can one ensure some semblance of order in meeting future needs. Here one will have to take into consideration nuclear power. When the first three atomic power plants are commissioned, it should be possible to compare actual capital and operational costs of nuclear power with those of power from other sources. Here again artificial pricing policies, i e, those not based on cost of production, are bound to increase prices and deny the advantages which should accrue to the consumer.

In the end one must note that any fuel policy must be based on what is definitely available rather than what may become available.

IRELAND

A Case of Historical Determinism

Martin Tomkinson

JUST when the British Tory government least wishes it, the Irish issue looms ever-larger as its number one political problem. The events of "bloody Sunday" and the consequent increased activities of both wings of the Irish Republican Army (IRA) have brought home to the English and Scottish public the stubborn fact that this problem refuses to lie down and go away. Nevertheless, both in England and elsewhere there is widespread confusion about what is happening in Ireland. This is particularly so when the conflict is defined in religious terms, as it nearly always is in any public discussion of the problem.

In fact, of course, the Irish issue is essentially a colonial problem. Any understanding of what is now happening in Ireland must be based on a historical view of the sources of the present conflict. Without such a view, the issue will remain a seemingly meaningless conflict between religious fanatics.

Seeds of the Conflict

The seeds of today's conflict go right back to the fourteenth century; in 1366 by means of the Statutes of Kilkenny, the English imposed a thorough-going system of apartheid whose object was to maintain the racial and cultural purity of the English settler population. This policy was maintained up until the seventeenth century when a virtual civil war broke out. The results of this war were drastic and set the scene for all future developments in Ireland. Thousands of indigenous Irishmen were killed and native Catholics were driven off their land and replaced by Scottish and English Protestant settlers. This policy was most drastically put into operation in the north-east of the country (in what is now known as Ulster).

As in the case of India, the British parliament was quick to pass laws preventing the development of Irish industries that might compete with similar English ones. The results, again as in India, were catastrophic. For example, there are less people living in Ireland today than there were in 1820. From 1845 to 1849 there was a terrible potato famine in Ireland in which it is estimated that over 1,000,000 people died and a further 1,000,000 were forced to emigrate — to America, England and Australia. But even while people were starving in their hundreds of thousands, large amounts of corn were being exported from Ireland to feed the English population. Never has the brutality and inanity of imperialism been so clearly revealed. Ireland was so systematically squeezed dry of all its economic wealth that by the end of the nineteenth century certain sections of the English ruling-class were prepared to grant Ireland its nominal independence.

Exploiting Religious Differences

However these moves were opposed by the big landowners allied with the small industrial class that had developed around Belfast. To protect their privileges these men resolved to exploit and to exacerbate the already existing religious differences in a desperate attempt to maintain their own rule. An exclusively Protestant and anti-Catholic organisation, the Orange Order, was built up to give Protestant workers a spurious sense of superiority, belying the fact that these same Protestant workers were usually as badly off and as viciously exploited as their Catholic counterparts.

These moves had some success. When the British parliament passed a Home Rule bill in 1912, Protestant extremists formed the Ulster Volunteers and armed them with German arms. Senior English officers vowed that they would never fight against the Ulster Orangemen. The outbreak of World War One spared the English ruling-class any such embarrassing conflict. Not surprisingly though, they showed no such reticence in dealing with a Republican rebellion in Dublin in 1916. 1,351 people were killed as the centre of the city was reduced to rubble by shelling. The rebellion's leaders, including Ireland's greatest Marxist, James Connolly, were shot but the brutality of the English army had a paradoxical effect on the mass of the Irish population. Instead of cowing them into submission, it only served to strengthen their resolve to secure independence once and for all. In 1918 they overwhelmingly voted for Republican Sinn Fein candidates who set up their own independent parliament, the Dail.

Unbridled Repression

The infuriated British government raised special squads, the infamous Black and Tans in order to put down the rebellion. They murdered and burnt down Irish homes in an attempt to force the Irish population into submission. In the North, Catholic workers were driven out of their jobs and forced out of their homes. This policy of unbridled repression had some effect. Some of the middle-class leaders of the Irish independence movement were frightened that they themselves might be swept aside in the developing struggle and so they were prepared to accept a limited degree of independence, leaving 6 counties in the north-east under the virtual control of the Orange Order and its henchmen. In the south, a 26 county independent state, Eire, was established.

This is how the two present states in Ireland were formed. In the north, the ruling Unionist party was careful to draw electoral boundaries which ensured Protestant rule even in areas where there was a majority of Catholics. The Ulster volunteers were allowed to keep their guns and were reformed into an exclusively Protestant special police force, the B-specials. The Special Powers Act was passed giving the Unionist government the right to imprison without trial, to ban meetings, demonstrations or publications as it saw fit. In order to sustain this repressive government, Britain grants Ulster £ 140 million every year. Of this, £ 70 million is to offset Ulster's share of Britain's defence budget, £ 32.3 million is spent on farm subsidies, largely to the big landowners, and only £ 33 million goes on the social services. Despite such subsidies, Ulster remains a desperately poor province. At 10.2 per cent of the workforce it has the highest unemployment rate throughout the United Kingdom and by far the worst housing conditions. As in Eire, large numbers of workers are forced to emigrate every year.

Despite so-called independence, a sizeable part of Eire's economy continued to be run by British interests, but British financiers preferred to invest in more profitable England than in Ireland. The result was near economic ruin. In the first eight years after independence, 350,000 people were forced to emigrate, i e, over 15 per cent of the population. In 1931 unemployment stood at 90,000 and by 1952 it had only been reduced to 60,000. Under such circumstances it was probably inevitable that despite its nationalist rhetoric the Irish government would seek economic co-operation with Britain as a way of overcoming lack of industrial development. This began to occur at the end of the 1950s. British and other foreign firms were encouraged to invest in Ireland with offers of long periods of tax-free development and aided by government grants. By 1965, 234 such projects had been started, 40 per cent of them British. Inevitably, the severely exploited Irish workers and peasants had to pay for these concessions. The percentage of the budget spent on the social services in Eire is the lowest in Europe excepting Portugal.

Such was the situation in 1968 when the Catholic population in Ulster finally lost patience and started a determined push for full civil rights. So explosive did this demand turn out to be that it led to a near-pogrom in Belfast in August 1969 when hundreds of Catholics were driven from their homes and at least eight people were murdered by B-specials in and out of uniform.

Second Wind

It was as a result of this savage attack that the IRA, which had become a largely defunct organisation, got its second wind. The IRA had already split between an increasingly political section, the 'Officials', and a more narrowly nationalist wing, the 'Provisionals'.

The IRA was formed in the independence struggle against the English. In 1922 the independence movement split up; the IRA continued to fight against the settlement which cut Ireland into two. Eventually it was defeated and one of its heroes, Eamon de Valera, came to power in the 1930s. The IRA itself did not disband and continued intermittently to harass the English. In 1939 it launched a bombing campaign in England with disastrous results. Similarly from 1956 to 1962 it undertook another campaign in Ulster with equally depressing results. By 1968 it had fallen into being largely an organisation of old men living off their memories.

This was the reason that the 'Officials' attempted to broaden their base and took up increasingly non-military and verbally Marxist postures. The 'Provisionals' objected to what they saw as a reformist and leftward shift and broke away from the parent body. After August 1969, the Provisionals undoubtedly received the majority of the new recruits because of their more militant rhetoric. However in recent months it has been the Officials who have been prominent in attacks, both in England and Ireland, and the split has become increasingly meaningless. In fact, neither wing has a clear, fully evolved programme for the liberation of Ireland, let alone a socialist programme. Neither wing is prepared to openly attack the Southern government and when the Eire authorities are criticised, it is simply in terms of Eire's co-operation with England. There is no mention of Lynch's reactionary policies within Eire itself. In these circumstances, it is hardly surprising that both wings of the IRA have failed totally to attract any form of working-class Protestant support whatsoever.

Essentially Ambiguous

The reaction of English big business to the Irish situation is essentially ambiguous. Paradoxically, most businessmen would probably welcome a united Ireland with the consequent possibilities of greater investment. But it is precisely here that history intervenes. The British government is saddled with the extreme reactionary state machine of Northern Ireland. Caught between their economic interests in Eire and in Ulster, successive Labour and Tory governments have chosen to do nothing rather than make an embarrassing and invidious choice between the two. In the meantime, the British troops sent to Ulster — allegedly to keep the peace — have increasingly become a weapon of the Northern Ireland government. Thus, the fiction of "keeping the peace" has now been dropped and the army is used as an exclusively anti-Catholic force.

In these circumstances, there seems little chance of a settlement in the near future. Undoubtedly big business would like to put into effect some kind of a federal solution. This would involve maintaining separate governments while attempting to reconcile the demands of the northern Catholics for equal rights with moves towards a united Ireland. Such a solution would doubtless satisfy the hardpressed southern government of Lynch and also the social democratic leaders in the north. But such a solution would go no way towards solving the country's basic problems. In capitalist terms there seems to be no way to satisfy both Catholics and Protestants.

Fledgling Socialist Movement

The tragedy of the Irish situation is the lack of anything more than a fledgling socialist movement. There are a variety of small, mainly student-dominated socialist groups, plus a militant but small labour movement in the south. The reasons for this deficiency are complex — the lack of a sizeable working-class in either north or south (both Eire and Ulster have basically agricultural economies), mass emigration, which has led to the paradox of important Irish labour and socialist leaders in England, America and Australia but not in Ireland itself, plus the on-going corrosive role played by religious divisions. But until a socialist movement emerges, it is hard to see any kind of settlement whatsoever in Ireland.

The tasks of a socialist movement would be to build a revolutionary leadership determined to overthrow the feeble Dublin regime while also leading a campaign to defend the Catholics in the north and throw out the British troops. Only some such movement could overcome the isolation of the northern Catholics and begin the difficult task of winning over Protestant workers to the banner of a united socialist republic. It would be idle to suggest that such a movement exists at present. Some of the seeds and the necessary elements are certainly there (notably the development of a mass civil disobedience campaign, e g, non-payment of rents). But this is a long way from being a mature socialist movement. In the meantime, the Catholic population is forced to defend itself. Neither the Official nor the Provisional wing of the IRA has a clear idea of how to lead a struggle towards a united 32-county Irish republic, but socialists should support the IRA in its defence of a beleagured Catholic population. This particularly applies to English socialists. Marx's words of over 100 years ago remain as true as ever, "The English working-class will never accomplish anything until it has got rid of Ireland... English reaction has its roots in the subjugation of Ireland".

SINGAPORE

Salesgirl's Sojourn

Harish Chandola

WHY has Queen Elizabeth of Britain just been on a strenuous and crowded three-week visit to three South-East Asian countries (Thailand, Singapore and Malaysia)? The usual answer one gets from British officials is that her visit is no different from the goodwill visits of other heads of state to friendly countries.

That might have been the case had two of these — Singapore and Malaysia — not been former colonies of Britain in which Britain had maintained military bases until recently and from which its last ground troops were pulled out only three months ago. The British troop pull-out has caused a kind of psychological vacuum among the region's ruling circles. These circles also fear a total US pullout from South-East Asia and find themselves without the assurance of somebody else looking after their security.

Malaysia is trying to fill this vacuum with its proposal to ask the three super powers — China, the Soviet Union and the United States — to provide guarantees that they will respect the neutrality of the countries of this region and that they will not make use of them to further their own purposes in the game of power politics. But there are some in this region who would like to live under the protective umbrella of a major power rather than on the hope of securing guarantees of good behaviour from all three super powers.

Elizabeth came here barely three months after her forces left this area. Her country is the major partner in a five-power arrangement (the five being Britain, Australia, New Zealand, Malaysia and Singapore) for the defence and security of this area. Though the Queen throughout her visit has not said a word on the subject of defence and security, her visit here is meant to reassure these countries that Britain will honour all its commitments in the Five-Power Defence Arrangement and it will not abandon the region by becoming indifferent towards its defence and security even though its bases here have been closed down and most of its troops pulled out.

British investments in rubber, palm oil, tin mining and light industry in Malaysia total over Malaysian $ 2,000 million (Rs 5,000 million) and British profits from them last year were nearly £ 15,595,000 (Rs 279 million). Britain not only wants to maintain and protect its highly profitable investments in Malaysia, but also seeks to increase its lucrative trade with it.

In Singapore too, British trading firms earn large profits. Besides investments in light engineering and assembly plants, Britain controls much of shipping, banking and insurance in Singapore, all of which bring quick returns. BOAC, besides having the privilege of operating a large number of services through Singapore, also operates an air charter company from there, whose planes are always full of Australians and New Zealanders who come up all the way to Singapore to take advantage of the low charter fares to Britain. Britain would, therefore, like to see that the area does not come under internal or external threat and jeopardise its investments and earnings.

The relationship between Britain on the one hand and Malaysia and Singapore on the other is not just one sided. There are benefits that Malaysia and Singapore look forward to. Malaysia wants Britain to get special terms for the export of its palm oil to the European Common Market. France has obtained special terms for palm oil from its African associates. Malaysia hopes that Britain will be able to get the same preferential treatment for Malaysian palm oil.

Elizabeth has included Thailand in her present tour. Britain has developed a considerable amount of trade with Thailand. Bangkok serves as the distribution centre of British goods not only for Thailand but also for Laos and Cambodia. The British organisation called the Commonwealth Development Corporation has opened a branch in Bangkok, though Thailand is not in the Commonwealth. In her banquet speech in Bangkok, Elizabeth gave the assurance that in joining the Common Market Britain will do nothing which will adversely affect the economic interests of Thailand. How will Britain's entry into the Common Market affect the economy of Thailand, one does not know. But while this assurance was freely given in Bangkok, Britain has not been able to provide similar assurances to all the Commonwealth countries which will be affected by British entry into the EEC.

Britain's effort obviously is to identify the countries with which it would like to have profitable trade relations even after its entry into the Common Market, irrespective of whether they belong to the Commonwealth or not. Britain's trade ties with the Commonwealth countries are bound to get severely affected to the detriment of those whose products Britain will not be able to get into the Common Market on preferential terms. Britain is trying to select those Commonwealth nations which it believes, will continue to enrich it through trade, before doing them the 'favour' of trying to get their produce into the Common Market on preferential terms. Thailand, Malaysia and Singapore are that special category.

FARM FINANCE

Missing Link between Banker and Farmer

I S K Chari

THE most significant feature of the developmental effort in agriculture has been the introduction of the hybrid and high-yielding varieties of seeds. These have stepped up yields four- to eightfold. For instance, average yields in wheat and paddy have risen from one tonne per hectare to around seven tonnes per hectare. It is estimated that multiple cropping is to be adopted in about 30 million acres by 1973-74.

Improved farming practices would, of course, involve a large investment. Under the traditional methods of cultivation, the farmer's investment in the land was negligible: he drew his seeds from the previous crop and relied on such water as was available; no systematic or significant application of fertilisers took place; family labour was used; the farmer invested little on cattle and hardly anything on their maintenance. The new improved methods of cultivation, on the other hand, involve an expenditure of about Rs 200 to Rs 300 per acre for a crop under the intensive agricultural programmes, and of between Rs 400 to Rs 500 per acre for a crop of the high-yielding varieties. The intensive cultivation and the high-yielding seeds programmes, require an assured and adequate supply of water. Unless canal delivery is already available, regular sources of water would have to be developed and would involve heavy investments. For this, the agriculturist would need financial assistance for 5-year periods. Though a part of the necessary funds may be found by the agriculturist from his own resources, the bulk of the funds would have to come from outside agencies. These credit requirements have been estimated at Rs 1,200-1,500 crores by the Dantwala Committee on Agricultural Marketing.

Till the recent entry of the commercial banks into the field of agricultural finance, the only organised credit agency in the agricultural sector was the co-operative. The short- and medium-term loans to agriculture provided by the co-operatives aggregated Rs 365 crores in 1966-67. There are 2 lakh societies, with a membership of 28 million. The inter-state variation in the performance of the co-operatives indicates the need for a sustained developmental effort in various parts of the country.

At the end of June 1966, the working capital of the co-operatives in Maharashtra was the highest at Rs 122 crores, Gujarat and Uttar Pradesh followed with Rs 67 crores each. The lowest was Assam, with Rs 2 crores. The all-India average of loan per member was Rs 129. Maharashtra ranked highest in this respect, with Rs 451, followed by Gujarat with Rs 420; Assam again ranked lowest with Rs 13 per member. Significantly, the overdues at the level of the primaries were about Rs 125 crores at the end of 1970, of which 84 per cent were of owned funds. The primary agricultural credit societies had a paid-up share capital of Rs 115 crores and reserves of Rs 34 crores. Thus their entire paid-up share capital was locked up in overdues. The position of the central co-operative banks — the main financing agencies in the co-operative credit structure at the district level — was better in some respects. Their share capital was Rs 76 crores, reserves Rs 76 crores, deposits Rs 237 crores, and outstandings from members (i e, primaries) Rs 438 crores. Their borrowings were Rs 244 crores, and outstandings to the Reserve Bank and to the state co-operative banks Rs 216 crores. The overdues were Rs 87 crores, i e, 87 per cent of their owned funds.

The role of the Reserve Bank in the field of co-operative credit is important. In fact, but for the Reserve Bank, the co-operative credit structure could not sustain itself even at its present stage of growth. A credit limit of Rs 350 crores was sanctioned by the Reserve Bank for 1968-69. Requirements of credit during the Fourth Plan have been conservatively estimated at Rs 2,600 crores (Rs 2,000 crores for short-term, Rs 200 crores for medium-term, and Rs 400 crores for long-term). There is, thus, a marked gap between availability and need, and the co-operatives cannot meet the growing credit requirements of agriculture.

Despite numerous attempts to revitalise the co-operative credit structure, the working of co-operatives is far from satisfactory and shows no signs of improving in the near future. Though, under the Fourth Five-Year Plan, high targets have been set for extending agricultural credit through the co-operatives, it is doubtful that they will be achieved — unless various time-consuming reforms to strengthen the co-operative structure are first carried out. Further, even if the targets are achieved, there would still be a wide gap, of over Rs 1,000 crores, in terms of requirements. This gap has to be filled by other agencies, both institutional and private.

Despite a large increase in co-operative credit over the past few years, co-operative credit formed a small part of total agricultural credit — estimated at 20-25 per cent. The proportion varies from region to region; for example, in the Eastern Region, in Rajasthan, etc, it is much lower. Apart from a small portion of the requirements met by the commercial banks, the bulk of credit comes from private agencies — *viz*, the village moneylenders, the indigenous bankers, trader-cum-moneylenders, agriculturist-moneylenders, etc.

One factor which will continue to hinder the co-operatives as well as the proposed Agricultural Credit Corporations in states such as Bihar, West Bengal, Assam, and Rajasthan, is the fact that these institutions are government-sponsored. There is a strong tendency also in the minds of the agriculturists to think that the money lent by these institutions is like the *tacavi* loans granted by government, and that like the latter it need not be repaid.

Official policy had been that agricultural finance would be the exclusive domain of the co-operatives. Commercial banks were then providing finance for the plantations and, to some extent, for the growing of commercial and cash crops. For some time past, they have also been contributing to debentures floated by the central land mortgage banks. In 1967-68, commercial banks invested Rs 18.35 crores in such debentures, and it is expected that their investments in them will be higher by at least 25 per cent in 1968-69. The Agricultural Finance Corporation, set up by some of the scheduled banks, was registered with an authorised share capital of Rs 100 crores, of which the first Rs 10 crores are being raised.

Today, all 'commercial' banks have taken to financing agriculture. As at the end of August 1970, the 14 nationalised banks and the State Bank of India and its subsidiaries had direct agricultural borrowing accounts with outstandings of Rs 175 crores. Among these banks, the SBI group leads, with 3 lakh accounts and outstandings of Rs 65 crores; Canara Bank follows, with more than 1 lakh accounts and outstandings of Rs 14 crores, and it has even announced that 50 per cent of the new additional deposits it will attract in future are to be devoted solely to small-scale industries and agriculture. In the case of the State Bank, the average per account was Rs 37,600 and in the case of the Canara Bank it was Rs 1,200. A consortium of banks was formed to finance specified agricultural development programmes and a scheme has been taken up for giving Rs 5 crores to the agriculturists in Gujarat to energise 12,000 wells.

In addition to all this, in 11 states, Agro-Industries Corporations have been set up to undertake manufacture and distribution of agricultural implements. But these are public sector institutions set up with financial contributions from state governments and the central government. They also function as wholesalers and distributors of agricultural machinery manufactured by them, selling the machinery to cultivators on hire-purchase basis. Although some of these Corporations have made a good beginning, in order to revitalise them it may be desirable to convert them them into joint stock companies. If need be, they could make intensive efforts in certain selected, compact areas, so as to make a tangible impact on agricultural production.

What is needed in the field of agricultural credit then, is an agency which will combine the efficiency of the private sector with the canons of public welfare. In what follows, we examine the role that commercial banks could play in this direction.

Since 'social control' was imposed on them, the commercial banks have entered the countryside. However, these banks have no base in the rural areas, and need to do considerable field-work before they can make a useful thrust into agricultural financing. Commercial banks have been mainly urban in character and approach, and they have no proper

organic links with the village. As they have neither the experience nor the expertise to deal with millions of cultivators, they have to depend on junior government officials or on the local leadership in the villages. Moreover, commercial banks are not in a position to lend upto certain ceilings on personal sureties — as co-operatives are expected to do. They do not have an agency of their own to scrutinise loan applications or to supervise the utilisation of loans they make. If they do not get much assistance from the local leadership, they have to go in for mortgages of land. The cost of getting such mortgages is very high. In practice, it would not be possible for the bank to foreclose the mortgages and to take over the land. The special features of agriculture in India — such as considerable dependence on the rains, frequent droughts, long agricultural seasons, etc — often result in overdues, carry-over of loans, and conversions. At the same time, the private moneylenders and indigenous bankers, who continue to enjoy patronage of the village folk, cannot be ignored in any attempt at village-level credit operations. Hence, any new agency for agricultural finance will have to aim at bringing together the commercial banks and the local elements such as the moneylenders and indigenous bankers as well as suppliers of agricultural inputs, machinery, etc.

So far, the activities of the banks have been confined to subscriptions to debentures floated by land mortgage banks, participation in schemes for financing plantations, and financing of long-term developmental works in agriculture such as purchase of pumpsets, purchase of expensive agricultural machinery like tractors, etc, under the aegis of the Agricultural Refinance Corporation. All these fall under term finance. In short-term accommodation, their activities are confined to financing crop movements and making advances against the produce and warehouse receipts. For working capital requirements, the agriculturist has to turn to another agency like the co-operatives. This is not in the interests of the banks because, under existing laws, co-operatives enjoy preferential treatment in the recovery of loans. On the other hand the agriculturist would not be able to get the working finance from the private agencies, because his land is already mortgaged to the bank that has financed him for the pumpset or tractor purchased by him. The only way out, therefore, is for the bank to provide also the working capital or to allow an agency, associated with it, to provide the necessary working capital. Recently, the Reserve Bank has liberalised its credit policy and offers refinance to the banks at a concessional rate of interest for the agricultural sector.

In the circumstances, to bridge the wide gap in agricultural credit it would be best for the banks to build up operational links with the villages. Such links are best provided by an agency that would also stock the farm inputs, ranging from water to fertiliser, and distribute them to the farmers. The agencies could be set up as joint stock companies. Since the banks cannot hope to cover the whole country on their own in the near future, such joint stock companies could act as the links between the commercial banks and the farmers. They could operate, to begin with, in certain compact areas in which congenial conditions exist, such as irrigation facilities, responsive farmers, etc. In these areas the commercial banks could prepare themselves, through the subsidiary joint stock companies, for a breakthrough in agriculture.

The proposed agency could be in the joint sector; and it could be a subsidiary of the commercial bank which undertakes financing of agricultural production in the area. The agency should be able to organise the necessary physical inputs (pesticides, agricultural implements, fertilisers) on a loan basis, and should also provide cash loans to the farmers. It should also arrange for the sale of the member-cultivator's produce. The agriculturists would, of course, also use the traders in marketing their produce. Though abolition of intermediaries is a cardinal objective in agricultural marketing, an agency of the sort envisaged here could, if backed by a banking institution, harness the energies of those very intermediaries for agricultural development. With local traders associated in a major way with the subsidiary, there would be greater scope for the subsidiary itself to start functioning as the marketing agency for the area.

To cite an instance: One of the nationalised banks, *viz*, the Canara Bank, has financed more than a dozen service centres which are run by entrepreneurs. The service centres are now taking to construction of godowns to help producers stock their produce during harvest time with a view to getting better prices. This type of organisation may be tried by several banks on a selective basis in areas where schemes financed by the Agricultural Refinance Corporation are in operation or where there is a programme for installing tubewells or for reclaiming land. Because of the limited area of its initial operations, the agency may be associated with a single commercial bank instead of with a group of banks or with the Agricultural Finance Corporation.

The late V T Dehejia had also underlined the need for such intermediate financial agencies in the rural areas. He was in favour of setting up the agencies with the support of the big commercial banks. The institutional link between the farmer and the bank would thus be an expert technical company with its roots in the rural areas. It would guide the farmers wherever necessary.

V V Bhatt in an article ('Lead Banks: Action-Oriented Approach', *Economic and Political Weekly*, October 3, 1970, pp 1639-42) suggested the setting up of a departmental store at two or three focal points in a district to serve as the nucleus for providing technical services and marketing activities. He advocated that the action to build up such a store could be initiated by the lead bank or by other financial institutions, through the promotion of a joint stock company or a co-operative—shares in which could be purchased by state-level institutions, including commercial banks, the LIC, and the people of the district. It could thus become a flourishing marketing centre, as well as a centre for cultural and educational activities. Developmental efforts could thus be concentrated in and around the growth points at the district level, or even below it.

The subsidiary company which we are proposing here could be formed, vesting the majority interest with the commercial bank which sponsors it and which may be allowed to hold over 50 per cent of the share capital of the subsidiary. The other shareholders in the company may be: (i) the private agencies, distributors of fertilisers, pesticides, etc, in the area; (ii) moneylenders or indigenous bankers operating in the area; (iii) manufacturers/dealers in pumpsets and agricultural machineries; and (iv) well known merchants or members of the public in that locality. The company could be managed by a Board of Directors with the Chief Executive drawn from the sponsoring bank.

In its loan operations, the company could adopt the general principles of farm finance enunciated in the Crop Loan Manual of the Reserve Bank of India. The crop loan system envisages the provision of credit on the basis of a rational assessment of the need of the agriculturist in relation to his agricultural activity, subject to his repaying capacity and with a view to minimising the possibility of the loan's misuse. It provides for the issue of a minimum amount of loan in cash, with the major requirements of the agriculturist being met in kind. The cash part of the loan is intended to meet the wage-bills and consumption requirements of the period during which the crop is still in the field. It may also include expenses incurred for inputs such as for additional weeding, additional watering, etc. The components of the loan would depend on the willingness of the farmers to take up farm practices recommended by the agricultural extension service. The capacity of the agriculturist to repay his short-term loans and the annual instalments of his term-loans is roughly estimated to be 50 per cent of the total yield. The timings of the disbursements and the recoveries should be adjusted to the agricultural season. The advances should be synchronised with the various stages of cultivation, and the repayment schedules should be arranged such that they synchronise with the harvest after allowing some time for the agriculturist to market his produce.

The essential element of the crop loan system is the linking of credit with marketing so as to ensure prompt collection of dues. The lending agency thus enters into an agreement with the borrower for the delivery of his entire produce—or at least that quantity the value of which would be equal to the loan taken by him—to a marketing agency which will sell it and so pay up the lending agency. If the price is unfavourable to the agriculturist, he may be allowed to hold on to his produce till he finds a favourable market. To be able to do this, he takes a loan against the pledge of his produce and the loan of the lending agency is met out of this 'produce loan'. V V Bhatt suggested that the departmental store should have godown warehousing facilities to keep stocks of agricultural and other commodities. The subsidiary company envisaged should be able to work out all these arrangements—once the idea of the subsidiary company and the general arrangements proposed are accepted. In all this an initial effort by one or more of the lead banks is called for.

PERSPECTIVES

Modern Indian Historiography

Urgency and Risk of Micro Studies

Sudhir Chandra

IT is no exaggeration to maintain that a fairly reliable history of modern India still remains to be written. The need for efforts in the direction is recognised as is clear from the growing body of scholars from different parts of the world who are trying to understand the springs and mechanism of modern Indian society in the historical context. It seems, however, that the magnitude of the task as also the factors obstructing its fulfilment are not always appreciated. The sheer physical vastness of the subcontinent and the complex richness of its variegated human groups introduce a bewildering variety of constants and variables with an anastomosis which may be presumed to exist though it eludes comprehension.

That we are still debating whether India is a single nation or cultural unit is revealing in this regard. Unity in diversity may well have become a disreputable cliche in our academic circles. But the cliche continues to dog us since neither those who sentimentally cling to it nor those who disdainfully spurn it can seriously argue for or against it. There is in reality no getting away from it because it will ultimately determine the perspective for the study of modern Indian history. Does India represent a unity? Or is its supposed unity no more than a transient continuation of what was essentially a concomitant of alien imperialism? In which case the one having withered away the other *ipso facto* loses its life force.

In considering a question like this the natural tendency is to offer an answer on the basis of the existing reality. But the existing reality is never easy to grasp. So the answer really reflects the understanding of the existing reality by a particular mind. The picture that emerges contains not only the reality and appearance of the past, but also the reality and appearance of the present. It could even be asserted with little risk of meeting with disapproval that the grip of the present on the minds of men has been the most vitiating factor in the study of Indian history during the last hundred and fifty years.

The pre-1947 division of historians into imperialists, nationalists and 'communalists' was rather simplistic and clear-cut in spite of occasional traces of ambivalence. Contrary to expectations, the three traditions have survived in less easily recognisable and more insidious forms. The adoption of more sophisticated tools and refined methodology raise an imposing superstructure upon the underlying bias which becomes difficult to detect. Post-1947 developments in India and Pakistan have much to do with the persistence of the old schools of historians. The imperialists, for instance, had always denied the fitness of their colonial wards for self-government. They had highlighted the fissility of the Indian society, and treated India as a notion rather than a nation. The vivisection of the country into two nations, irrespective of their own role in it, was convincing proof to them of the soundness of their view of Indian society. Later developments like the growing strength of regionalism and the hold of the caste system in democratic India came in as additional evidence. It is interesting to observe that observation of the current Indian social dynamics has induced Indian scholars to arrive at conclusions that square with the imperialistic viewpoint. An uncharitable critic might even impute personal motives to these Indian historians. References to some Indian historians as the followers of the Philips school are a case in point. The implication behind such imputations often is that these persons owe their positions and power to the loyalty they extend to the high priest in England. But the bias is rarely, if ever at all, the result of deliberate dishonesty.

More than anything else, the experience of the present imperceptibly prepares a scholar to settle on a certain hypothesis. This being done, half the battle is won by subjectivity. The particular slant induces the inquirer to look for a definite type of material and gloss over or explain away things that are disturbing. In certain significant

cases the bias is strengthened by the use of a particular methodology. The adoption by sociologically inclined historians of caste as the fundamental category to understand Indian society illustrates this. Their conclusions, it may be noted, confirm the earlier imperialistic view of Indian society. Whatever their intellectual impulsions, there is a logical unity and continuity in the writings of Herbert Risley, B B Misra and M N Srinivas on the mechanism of Indian society. It was Risley who clearly described the process which Srinivas has characterised as Sanskritisation. And whatever Srinivas may say about Misra's use of the term caste in the context of the whole of India, the entire "Indian Middle Classes" is a confirmation of the theory of dominant castes.

But to say this is not to accuse anybody of plagiarising; nor to belittle the importance of their undoubtedly significant, though sketchy work. The point is that once a stance is accepted as the most logical for the study of a particular society, the handicaps attaching to it are lost sight of. No student of Indian history would question the vital role of caste in the evolution of Indian society. But even a nodding acquaintance with modern Indian history would suggest the significance of a new social phenomenon — the emergence of social groups increasingly cutting across caste lines. But concern with caste as the fundamental cohesive group leads these people to study even the emerging classes in terms of caste. Rather than focus attention on the evolution of this new cohesive unit, analyse the effects of the simultaneous caste and class, and understand their shifting jurisdictions and interaction, many scholars are trying to explain the hold of caste in contemporary India at the cost of missing the perspective of modern Indian history. Their supposition is simple: if caste is important today, it could not have been otherwise earlier. They altogether miss the essential point of any historical inquiry — the naunces and shades in a given process in spite of its basic study over a long period of time.

The spell of the present as a potent factor in the study of history is well illustrated by the speculations and fantasies of many Indians following developments in East Bengal. They are viewing the emergence of an independent Bangladesh as a refutation of the two nation theory which *inter alia* had led to the partition of India. They fail to realise that they are trying to project on to the successful centrifugal war in the erstwhile united Pakistan their wishful thoughts about the fundamental unity of pre-1947 India. To argue like this is to miss the very nature of historical reality. What exists exists. When it ceases to exist the cessation of existence constitutes no proof against its earlier existence. Life does not became unreal because death inevitably follows. The French Revolution was no less real because it gave birth to Napoleon. Pakistan, however strongly we might wish otherwise, is not shown to have been an artificial imposition by Bangladesh. Does it not occur to us that the unfortunate events there could as well be the upshot of rank mishandling of affairs by a series of short-sighted and selfish men in power? Yet, because it soothes our feelings, we see in these the essential unreality of the partition of India.

It seems a distinction will one day have to be made between pure and applied history. Pure history will concern itself with the understanding of a given society at a given point of time irrespective of its effects on the minds of men in later generations or on their destiny. It will not merely dance back and forth at its own sweet will, and seek in later occurrences the explanation of earlier developments. It will be amoral, nonutilitarian and value-free. Ideological commitments will neither dictate its methodology nor determine the broad trends of generalisations. Applied history, while drawing at pleasure upon pure history, will be rooted in the present. Given the role memory plays in human life, applied history will remain by far the more popular of the two; though the aim will have to be to bring it as near pure history as possible. The distance between the two will normally reflect the moral stamina and psychological stability of the people who are studying their own history, though in a time of national crisis applied history will move substantially away from pure history in order to subserve the interests of the group. At the moment circumstances in India are particularly unsuited to pure history. The aftermath of Partition and the problems of development have so gripped the minds of men as to make them approach every question in the light of an earlier experience or a preconceived theory. Thus we have liberal bourgeois historians, Marxist historians, 'communal' historians, regional historians, nationalist or imperialist historians, but not a historian who by a supreme effort of will and self-understanding tries to move beyond these blinkers.

The idea of pure history may seem utopian. It is so to the extent that it is conceived in terms of objectivity which seems to have been debunked by the researches of modern psychologists, and also by the natural reaction against the complacent optimism of the pre-1914 world. But the idea is not really impossible. The phenomenon of alienation offers some hope that in no distant future may emerge persons who will not only be removed from the society of which they form a part, but also possess a keen insight into the working of their own mind. In any case the impossibility of an idea is not necessarily a reflection on its soundness. The alleged impossibility may but be a true index of possibilities to date. What of the future? More so when the working of human psyche in at least some cases indicates favourable future trends.

We have to begin with spade work. For the sad fact remains that the collection of basic source material itself is far from complete, though some angels of the Indian historical world have thought the existing body of facts sufficient to attempt generalisations. This state of affairs calls for a series of micro studies — both in point of time and in point of extent — based on an extensive search of relevant sources. Without such minute, detailed micro studies comprehensive generalisations degenerate into an exercise in futile speculation. At the same time, however, those undertaking micro studies face the risk of losing the broader perspective. The risk is only heightened by the current Indian social and political scene which, as we have seen, induces the historian to view the past in the light of the present. Thus the protracted attention paid to a narrow area by the researcher tempts him to attribute to the area a reality that it does not possess; and the temptation is strengthened by present regionalism, if not also always by what one has read of the British imperialistic historians. The same applies to micro studies of particular groups, whether castes or religious communities. The desideratum of micro studies, so essential to outline the contours of the totality, can become a hindrance to the perception of totality. The problem basically boils down to combining the highest degree of specialisation with broader understanding and empathy; to being able to scrutinise the individual trees without forgetting the woods of which they are the constituents.

But what is the totality? Where does one wood end and the others begin? The existing units cannot be taken for granted as infallible guides to understand the past. The answer even to these apparently settled questions has to be sought afresh by the researcher in the past.

REVIEW ARTICLE

In Search of a Communist Development Model

The Soviets' Political Economy of India

Stephen Clarkson

WHEN the cold war was turning Western scholars' attention toward the political future of Africa, Asia and Latin America, one could scarcely read an article on the position of the developing countries in international affairs without encountering some reference to the communist model that threatened, like some international pied piper, to attract the elites of the Afro-Asian nations into the socialist bloc. Just what constituted this model, however, was not quite so clear as one first thought. Was it the historical experience of development in the Soviet bloc? If so, there would be not one but a multiplicity of models, one for each sacred father — Lenin's or Novotny's, Tito's or Mao's. Worse, in the case of the more long-lived, such as Stalin, there would be a model for each stage of communist construction over which he had presided: that of forced industrialisation and collectivisation, of the patriotic war, of post-War reconstruction. Each aspect of each model was presumably in some way appropriate to the national conditions obtaining in each particular communist regime, but which part of which model was relevant to a given developing country? And who was to decide what was relevant and what was not? If the leadership in each country was to choose, our communist model would vary in addition with the needs and ambitions of each national leader: for Nehru it was above all a solution to the nationality question, for Nkrumah it was the single party system; for others the lesson might be more economic: the magic of five-year plans or the nationalisation of foreign companies.

A more obvious, though less familiar, sense in which there has always been an identifiable communist model specifically relevant for each developing country is the analysis of its problems by the scholars from a particular communist country. By dissecting their writings one should be able to extract their "model" for development, at least on those problems they are most concerned about.

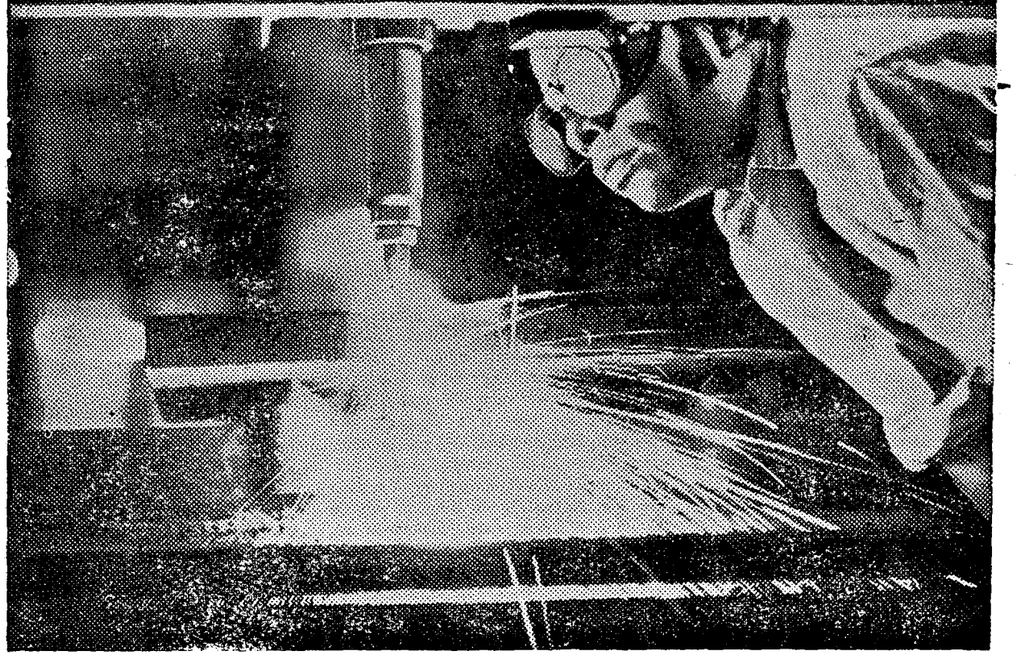
The Soviet analysis of India offers one of the best cases for applying this approach, for among marxist-leninsts the Soviets have devoted the most resources to studying the developing countries and their writings on India over the past two decades are abundant enough to permit satisfactory generalisations concerning their analysis.[1] Even when considering the Soviet marxist-leninist publications on a major third-world country like India, it is not obvious *a priori* whether there is a model defined as a coherent diagnosis of India's problems and a prescription for their solution. There is certainly no single development strategy which has been deduced from the economic and historical experience of the USSR. There is much analysis varying not just in quality from author to author but varying also dramatically over time. As official Soviet ideology has gone through, several distinct phases since the October revolution influenced by changes in the internal economic or political situation as by the external international position of the Soviet Union, so have Soviet analysts seen India as a highly developed capitalist economy on the brink of a socialist revolution (1921-28), a colonial economy in the hands of a reactionary bourgeoisie (1928-41), an important economic and industrial base for the British, their war-time allies (1941-45), a continuing colony in the British-American Empire (1947-53) and a truly independent and progressive third-world power (1955-present). Despite the wild fluctuations in these phases of Soviet Indology, these variations are best seen as politically inspired interpretations within a generally stable analytical paradigm, the marxist-leninist political economy. In any case since Khrushchev's de-stalinisation of Soviet marxism and his positive reorientation of Soviet foreign policy towards independent third world countries invalidated the major theses of the stalinist analysis, Moscow's orientalists were forced to recast their interpretation to allow for the possibility of progressive social and economic development within non-communist, ex-colonial countries. The resulting post-stalinist school of thought presented a development model centred round the concept of state capitalism. This was more than an economic model. It was a political economy paradigm based on three major postulates: the historical position maintained that the emergence of a powerful socialist bloc enabled third world countries to pass from a feudal to a socialist stage through an accelerated state capitalism stage; the economic proposition asserted that a gradual transition to socialism was possible through the expansion of the state sector under long-term planning; the class analysis held that the national bourgeoisie could direct this transition with internal support from progressive proletarian and peasant forces. Whatever industry or sector of the economy was under discussion, a common analytical framework was applied: what was the size of the private sector and which class' interests were served by it: the foreign monopolies, the local monopoly bourgeoisie, the national bourgeoisie, the petty bourgeoisie, the proletariat or the peasantry? What was the relative size of the public sector and the means used to stimulate its growth (nationalisation, joint ventures or new investment)? What instruments does the state have for controlling this industry or sector?

This paradigm was flexible: it could distinguish countries by their degree of progressiveness from feudal states where the landlord class was dominant through to non-capitalist regimes where radical leaderships were in power. Within the same country it could respond to new developments — a regressive shift from state capitalism controlled by the national bourgeoisie to monopoly state capitalism controlled by the monopoly capitalists in conjunction with foreign monopolies or vice versa. The prescriptions were as clear as the diagnosis: industrialise through progressive takeover by the public sector while modernising agriculture on large-scale production and profiting from favourable aid from the socialist bloc whose friendship would permit increasing independence from imperialist commercial and corporate control.

While the Soviet development model as articulated in the mid-1950s was clear in its rough outline, it was not certain whether it could maintain its

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theoretical consistency and conceptual clarity as Soviet scholars applied its hypotheses to empirical analysis of individual developing countries. In actual practice the experience of the past fifteen years has demonstrated two general laws:

(1) The increase in quantity and quality of Soviet analysis led to increasing debate within the Soviet developmental schools leading to a more interesting analysis whose original model, tended to fragment under the strain.

(2) The quality of the analysis varied inversely with the political or ideological sensitivity of the problem under research.

By examining briefly four key areas of the Soviet analysis of India from the worst (Indian politics) to the best (Indian agriculture) one can see how the Soviet model of Indian development has been undermined as the quality of writing has improved.

Political Analysis

In marxism-leninism there is no autonomous political science as an independent discipline. Political analysis is observed in larger discussions of the economy and class struggle. This does not prevent the Soviets from providing careful analysis of the parties and politics in some political systems. Concerning India, however, the serious study of Indian politics remains the main gap in Soviet Indology. In the analysis of parties there is a virtual void. While half the propaganda brochure, "Contemporary India: The Distribution of Class and Political Forces", is devoted to Indian communism this in no way reduces the need for a serious study of India's political parties, including the communist parties.[2] Two aspects of politics in India — the nationality question[3] and the social and intellectual content of political ideologies[4] — have been the object of some attention. Otherwise one must glean the Soviet view of political life in India from their sociological analysis of class contradictions and from discussions of the linkages between the corporate sector and the national bourgeois leadership. The model is clear at least by inference: the proletariat should take over. However the analysis is so inadequate that the prescription has to be taken as an act of faith. While it is asserted that the national bourgeoisie is acting in the interests of the people as a whole, there is no explanation of what political mechanics make this possible especially when it appears in their writings that the communist party is the instrument for expressing the public's true interests.

While the Soviet analysis of Indian politics seems to be paralysed by the fear of hurting the Indian communist party the Soviet analysis of India's external economic relations is similarly deformed by political considerations. In reading Soviet works on foreign investment, aid and trade one detects two distinct lines. The ideologically most coloured line demonstrates an acute manicheism which sees imperialist aid as exploiting, shackling and unwanted, while economic relations with the socialist bloc are liberating, developing and sought after. The they-are-bad, we-are-good line is qualified by another theme which seems designed less for fellow communists than for the leaderships of the developing countries. Here they accept that the developing countries require external sources of capital accumulation, admit that the socialist countries cannot alone provide all the third world's needs, reject a quota as high as one per cent of GNP as a legitimate quantity for socialist aid and maintain that the imperialist countries should give more aid as repayment for previous colonial exploitation. Now while defending the virtues of socialist aid they recognise its "tied character" — tied in roubles and tied to specific projects. Although they denounce the western exploitation of developing countries through "non-equivalent exchange" (the charging of high prices for Western exports but paying low prices for third world exports), they concede that Soviet trade is equally based on world prices. When criticising private foreign investment, they recognise its positive economic consequences without feeling the need to impugn its bad motivations.[5] This increased balance strengthens the thrust of the basic Soviet case: on the one hand national independence is endangered by direct investment and too much aid and, on the other, India has concrete advantages to gain from the increase of commercial exchange with the socialist countries.

When the reader makes a synthesis of the Soviet discussion of aid and trade, comparing the critique of Western investment and aid with the qualities of socialist aid and trade he perceives a diagnosis and a prescription not very different from the left liberal position of scholars such as Gunnar Myrdal. What is disappointing is the lack of rigour in their attack on western investment.

Soviet analyses of Indian external economic relations with capitalist countries remain surprisingly shallow.[6] As for India's relations with the socialist bloc, Soviet publications continue to rely for their information on foreign documentation. It is still disappointing that the Soviets do not provide a really detailed analysis of their own aid and trade with India all the more as an evaluation of its characteristics is still very positive. Yershov's book[7] about the particularly happy and successful co-operation of the socialist countries in constructing in India a state oil industry against the concerted opposition of the Western oil cartel has not led to further studies of this kind. With the ideological line broken down by the qualifications scattered through the texts, the Soviet model is more implicit than intact in its external dimension.

The Economy and the State

Although the rhetoric of a revolutionary solution has never been entirely dropped from the Soviet analysis, the call for "fundamental socio-economic transformations" has become increasingly divorced from the concrete analysis produced by Moscow specialists. When analysing the internal economy Soviet scholars come closest to their Western colleagues' discussion of a mixed economy and become even more optimistic about the developmental role of the state sector than their Western counterparts. Offsetting their institutional optimism, however, is their concern about the direction taken by the class struggle.

In fact the current Soviet assessment of the Indian situation considers the ruling national bourgeoisie to be increasingly linked with the big landowners and foreign monopolies. While in the 1950s the Soviets felt that state capitalism would lead India towards a transition to the socialist path, in the 1960s they observed a capitalist economy characterised by a highly developed heavy industry[8] and a high concentration of capital.[9] It is both as cause and effect of this strengthening of capitalism that the character of India's state capitalism and the nature of its class relations have evolved.

Overall they identify a struggle going on between the two possible types of capitalist development, the conservative path taken by the big bourgeoisie in co-operation with the foreign monopolies and the radical path leading to real democratic transformation.[10] This struggle is focused around the role played by the state in regulating and participating in economic development.

While state capitalism still remains at the centre of the Soviet economic analysis, this concept has lost the theoretical status it enjoyed ten years ago before the declaration of "non-capitalism" as a new law of development for radical regimes in the third world.

A recent assessment of the regulatory activity of the state is printed in the important volume published by the Institute of the Peoples of Asia, "Problems of Socio-economic Development in Independent India", which discusses the various means of control allowing the government "to use the anarchic processes of capitalist accumulation to develop the national economy."[11] The Soviet analysis becomes a type of score-keeping with the achievements of state capitalism being measured against its failures. State capitalism's success is

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seen in its having directed private capital into heavy industry. But the regulation policy has had serious failures: the failure to exercise control over the smallest enterprises had led to an excessive increase in small-scale production; the attempted regulation of prices and internal trade has nevertheless not succeeded in suppressing speculation in food and imported goods.

As for the nationalised industrial sector, there again state capitalism reveals weaknesses. Public enterprises have used very large amounts of capital but make very small profits.[12] As a result, the government is now investing in light and food industries where the return is more rapid but the development contribution less progressive. It is also creating new governmental organisations able to act directly on such problems as grain distribution. The diminished effectiveness of state control entails a greater degree of freedom for the forces of the capitalist market. This is why the Soviets regret that state capitalism is adapting to the mixed economy and not vice versa.[13]

The Soviet economists find the proof that state capitalism can no longer dominate the anarchic laws of the capitalist market in the disappointing results of planning. The failures experienced in the execution of the third five-year plan demonstrate the weakness of governmental action on the private sector.[14] The different analysts have their own dialectical evaluation of the problem: for some, the increased capital investment encouraged by the planning system helped break the old economic structure but at the same time accelerated the rise of the private capitalist sector.[15] In Lozovaya's analysis even if planning is aimed at the abolition of old economic disparities, the planning experience has brought new ones to light: unutilised capacity in industry, unbalanced development of complementary branches, increased dependence on imports, insufficient expansion of the energy sector.[16] In theory, the strong point of planning is its ability to mobilise capital. But in his study on the financing of the five-year plans Egorov underlines the inadequate revenue coming from the public sector firms. Observing that the plans' financing depend more and more on private sources of capital, he has serious reservations about the planning system's capacity to direct national economic development. More still, the concessions made to free enterprise could even become the "starting point for the country's slide into the state monopoly capitalist path."[17] Thus the danger that India's state capitalism will be transformed into its reactionary form becomes greater as the progressive aspects of the state's regulatory activity are overshadowed by the action of private enterprise. Because of the failure to execute fundamental socio-economic transformations, state capitalism is unable to realise its two main aims, mobilising the productive forces and increasing the rate of accumulation.[18]

The corollary of state capitalism's reduced effectiveness is reinforcement of private enterprise at the summit where the concentration of capital is highest. "Monopoly capital" is studied first of all as an economic sector whose high level of organisation and technology is due, according to Loshakov to its close links with the imperialist monopolies.[19] What makes these links with the Western corporate giants so serious for the Soviet analysts is their ideological implications for the overall trend of India's economic development. In his progress report on the rise of big business in India, Maev emphasises the threat that the reactionary strategy of the monopolies presents in economic policy: they are striving to transform India's economy on to the Western model.[20] Although he considered in 1964 that monopoly capitalism — the subordination of the state to the monopolies — had not yet triumphed in India, his later assessments show a growing pessimism in this regard.[21] To make the political point very clearly, Savel'ev warned in *International Affairs*, in April 1967, that the growing activity of the Indian monopolist bourgeoisie was seriously threatening to deflect India from "its established path of neutrality in foreign policy".[22]

The exact significance of this extension of monopoly capital in India is the subject of an important debate centred around the analysis of the Indian social classes. According to Shirokov and Reisner the big monopoly bourgeoisie is not monolithic and has not succeeded in dominating the lower groups of the bourgeoisie, especially because of Nehru's policy of maintaining a balance among the classes.[23] Aleksandrov and Melman assert on the contrary that the big bourgeoisie dominates the petty bourgeoisie just as much through its economic power as by its political organisation.[24] They also note that the middle bourgeoisie still plays an important role despite the small expansion of its size.

Savel'ev thinks it is better to consider together the small and middle capitalists since these two strata face the same economic difficulties. As they demonstrate practical agreement on the main political and social questions, they can lead a common front against the domination of big capital.[25] But Shirokov and Reisner feel that the significance of these differences inside the bourgeoisie should not be exaggerated. These conflicts cannot transcend the main social contradiction, namely, the antagonism dividing the workers on one hand from all the groups of the exploiting class on the other.[26] This debate continues as the Soviets pursue their research on the industrial classes which form the core of their analysis of developing India's capitalism.[27]

The extent to which state capitalism has passed from a development model in itself to a framework for analysis can be seen in the introduction by some Soviet scholars of serious discussion of small-scale, labour-intensive enterprise. The careful statistical analysis by Fedin showing how in certain industries artisanal production is more efficient in terms of capital investment than large-scale industry has in one blow taken Soviet analysis out of a fixation on size but shattered the coherence of the Soviet message.[28]

Agrarian Capitalism and Class Struggle

The Soviet analysis is most vigorous and scholarly, most firmly based on marxist-leninst theory and on empirical research in that area which is furthest removed from the concerns of party politics and cold-war diplomacy, agriculture. It is in rural sociology that the Soviet academic tradition finds its roots in pre-revolutionary soil.

From the early 1950s the analysis of India's agrarian problems has been the strongest part of the Soviet analysis whether measured by the quality of its research or by the sophistication of its methodology. The intervening years have allowed the agrarian analysts to consolidate their advance by concentrating their efforts on a few selected issues.

The basic problems for the Soviet agrarian analysts is defining what historical stage agrarian development has reached. For India they have to their satisfaction resolved the 1950s debate on the relative importance of feudalism versus capitalism, in favour of the latter. As a result of the agrarian reforms introduced by the Indian National Congress in the 1950s the feudal agrarian system is in a state of transition to capitalist agricultural relations. Capitalism has now won out as the dominant trend in the Indian countryside.[29] In saying that Indian agriculture is directed to-

ward capitalism the Soviets do not mean that capitalist farms are the major producers at the present moment. While pointing out how far capitalism has progressed, the Indologists have put greater emphasis on the pre-capitalist aspects of the village. In actual fact, with only 40 to 45 per cent of national income coming from capitalist-type enterprises, the major part of the national revenue is still produced by the pre-capitalist sector. Since the growth of capitalism in agriculture is slower than the breakdown of small-commodity production,[30] the Soviets are paying increasing attention to these transitional structures. Rastyannikov notes that the expanding share by commercial farms in the agricultural produce being sold on the market is only gradual. Although in some regions the degree of commercialisation is high, the agrarian bourgeoisie is not yet the main supplier of commercialised grain.[31] The pre-capitalist commodity production sector is still placing obstacles in the way of the bourgeoisie's development toward capitalism. The system of state taxes and the longevity of transitional property forms are preventing the agrarian bourgeoisie as a class from separating from the small peasantry even though the latter remain ready for the transition to capitalism. Why does this not happen?

Rastyannikov and Maksimov have devoted a large part of a recent book to answering this question. The nature of primitive accumulation does not encourage capitalist development and even restrains its progress.[32] The agrarian capitalists that have appeared, are forced to choose between the two conflicting paths of capitalist development: the radical (peasant) direction and the conservative (landlord) path. The conservative tendency is dominant thanks to the close ties linking big urban capital with the large land owners.[33] The government's conservative agricultural policy is thus responsible for the failure of rural capitalism to develop. By maintaining in place the large landlords and abandoning radical agrarian reforms, pre-capitalist vestiges have been allowed to survive.

But this is not a unanimous point of view in Moscow. Rudin considers that capitalist development is prevented less by such subjective factors as the government's policy than by the objective problem of relative overpopulation. In his view no radical reform will produce a *de facto* transformation in the village economy as long as the colossal reserve supply of labour ready to work at any price keeps growing.[34]

The struggle for land reforms of the 1950s is no longer the focus of attention for the Soviets who are much more interested in the state's regulatory action in the agricultural market place than in the land struggle. State capitalism is much less effective here than it is in industry: the efforts to control agrarian prices have only had a partial effect; the government has not created a sector of state agricultural enterprises so that planning in agriculture has not been effective either.[35] Congress' agrarian policy consists of large capital investment in programmes of communal development, co-operatives and agro-technical improvements from which only the large land-owners and well-off peasants benefit.[36]

The technical aspects of agriculture still interest the Soviets especially as they identify the backward state of agricultural technology as a determinant of agriculture's low productivity which, in its turn, slows down its rate of growth. As for the food crisis which remains as far from a solution in their view as it did in 1951, the Soviet authors no longer speak as they once did of the enormous potential of India's resources. Mironova, in her brochure on "India's Food Problem", provides a detailed study of the grain market, its degree of commercialisation, the role of speculation and usury capital in the fluctuation of prices, and the insufficient measures taken by the government to improve this situation.[37] She supports recommendations that are directed at creating a complete state network for selling cereal grains. An article by Rastyannikov recommending protectionism for agricultural prices demonstrates the same empirical approach to governmental policy on important middle-range problems.[38]

The greater prominence given recently by Soviets Indologists to specific policy recommendations make their analyses more meaningful to the non-marxist reader. Such advice given in terms of the existing situation does not prevent their reaffirming their more grandiose solutions consistent with Soviet doctrine. But the exact nature of the "radical transformation" without which, in their view, a solution of the agrarian problem is not possible still remains imprecise and insufficiently argued in the Soviet writings. Between the concrete recommendations and dazzling panaceas, the Soviets also recommend programmes of action such as the democratisation and expansion of co-operatives for the small peasants that will, in their view, promote agricultural development in the middle term.[39] Although these recommendations in agrarian policy lack sufficient argument to support them, they reflect the priority given to socio-economic analysis over political considerations in the Soviet analysis of India's agriculture. The priority of analysis over slogans is especially clear in the Soviet's discussion of the agrarian classes. The agrarian proletariat is of special interest. But their analysis of it is less and less dominated by old marxist-leninist formulae. It is true that Kotovsky concludes his study of the agrarian labourers by stating in dramatic tones that the entry of tens of millions of proletarians and semi-proletarians "in the path of active class struggle will inevitably provoke a decisive change in the distribution of political forces in the country."[40] Nevertheless his article's interest lies much less in such rhetoric than in his descriptions of the socio-economic situation of the agricultural workers. Although proletarians in the economic sense, they remain peasants in their socio-psychology since a very large percentage still cultivate a little land. Given the problem of caste and of religion (30 per cent of agrarian workers are untouchables or belong to a classified tribe), the prospects of agrarian worker unity seem much less bright than Kotovsky's conclusion would suggest. As Semenova shows, the organisation of agrarian workers by caste produces contradictory results: caste organisation helps politicise the poorest strata of the countryside but slogans of class peace weaken their revolutionary force.[41]

The consideration given the traditional element in the countryside is probably the most remarkable change in the Soviet analysis during these past years. In his introduction to "Castes in India", Kotovsky breaks with the old Soviet view that caste is only disguised class. He underlines especially the historic stability of the caste system and its increased importance in current social and political conflict.[42] Levin provides a penetrating discussion of the role of caste in the formation of bourgeois groups.[43] Though the caste problem is given prominence in this collection of articles, this new awareness of the continuing importance of the traditional elements has not yet been absorbed by all Russian Indologists many of whom continue to dismiss the traditional as anachronistic.

Thus we can see that, as Soviet analysts of India development problems become more empirical and more open to Western scholarly inputs, differences of opinion among them become more visible and the coherent interrelation of

all parts of their model breaks down.

General Assessment

Although the style of the Soviet authors retains its displeasing characteristics — unresolved contradictions, quotations of doctrinal documents of the Party as infallible authority, hyperbolic generalisations, it would be wrong to be led astray by these weaker aspects of contemporary Indology in the Soviet Union. For in applying their methodology to the Indian reality, they have made continued progress, to use their words, in both depth and breadth. They are looking more closely at aspects of rural problems of which they had only begun the study in the fifties and they are advancing on new fronts (caste and overpopulation) that till now had remained either ignored or taboo.

In any analysis there is a tension between theoretical proposition and empirical description. The Soviets are most often criticised for letting the former dominate the latter. But in their agrarian and economic analysis, empirical study increasingly takes precedence over doctrinal generalisations. The statement that capitalism is winning out in Indian agriculture does not prevent their doing research on the problem of the pre-capitalist, small-production sector. Their interest in India's transition to a non-capitalist path does not prevent them from making a detailed analysis of private and even monopoly industry. The areas where the application of the marxist-leninist methodology is no longer an obstacle to good analysis have increased. Their conclusions are less determined by *a priori* political judgments. One can now complain that their analysis does not lead to clear ideological conclusions. Does, for instance, the lack of progress in the formation of new capitalist classes in the country increase the prospects of class conflict as Rastyannikov maintains or the contrary as Kotovsky's analysis of the caste system seems to suggest? The price of academic difference is diversity in their conclusions.

Another sign of the growing freedom of Soviet Indology can be seen in the good relationships between Moscow and Delhi that has been maintained despite the numerous warnings by Soviet research writers on the growth of reaction in India and the monopolisation of its economy. Soviet Indologists can now complain that their diplomats do not read their writings enough before making their foreign policy.

The maintenance of a friendly diplomatic atmosphere has, however, helped professionalise Indology in the USSR. Political and economic relations between the Soviet Union and India have continued to be stable. As a result, contacts of Soviet Indologists with India have grown through scientific exchanges, research trips made in India, and the translation of foreign works on India.

Marxist-leninist Indology thus is getting away from its original monolithic state while remaining a school with a quite distinct approach. But to say that there is now a definite Soviet analysis of underdevelopment applied to the Indian case does not mean that it prescribes coherent solutions to the problems analysed. As noted above, Soviet authors sometimes give recommendations for governmental action to resolve concrete problems. This advice is supported by political and economic arguments. One must simply accept as an article of faith that India's entry upon the non-capitalist path will mark the true beginning of solving India's problems — from agricultural production to the caste system.[44] Even the "minimum programmes" are scarcely supported by an adequate amount of argument. Potemkin and Sandakov support without comment the electoral programme of the Indian Communist Party, recommending general democratic transformations to divert the big bourgeoisie's sources of accumulation into the state's coffers.[45] In recommending an increase of taxes on the rich they give the impression that the state can collect huge amounts. But according to Shatalov, there is very little hope for on this road: "the country has only a million taxable people; the others are too poor to pay anything."[46]

The same absence of reasoning is true of class strategy recommendations. Thus when Rastyannikov and Maksimov draw class conclusions from their study on India's agrarian capitalism, they speak facilely of a strategy of "anti-feudal unity" of the working class and the peasantry, "the most massive force of the people." These old slogans of class strategy are repeated without any very evident relationship with the preceeding analysis which, on the contrary, emphasises the absence of class consciousness, the difficulties in organising the country and the lack of ideological rapport between industrial proletariat and the poor people in the countryside.

While in its vocabulary and its style, this is clearly an "ideological" analysis, retaining the use of traditional marxist-leninist concepts and formulas, this is a very moderate analysis. Awarding state capitalism a progressive character has some clear implications. It removes any blame for the miserable state of the people from the economic system, casting responsibility back to the previous historical period, that of colonial domination. Furthermore the enshrining of state capitalism as a progressive historical stage of development gives it a kind of moral right to direct the course of the country's current economic development. The concept of historical stage implies, of course, some end to the period, but an extreme precision in periodisation is not the forte of marxist-leninists: imperialism has represented the "highest stage of capitalism" in the West for almost half a century. For the state capitalist period, the Soviet analysis does not furnish us with indices precise enough to indicate what signs, apart from a reactionary shift in foreign policy would announce the end of this progressive stage in India's development. As long as the bourgeois national government is considered by the Kremlin to be friendly towards Soviet policies, nothing indicates what would constitute an end to the state capitalist stage. For this reason the post-Stalinist analysis appears to have opened an ideological door to the acceptance of capitalism in the Afro-Asian world as can be seen when Yershov holds out India's state capitalist policy of fighting the oil monopolies as holding "the promise of freedom from the oil monopolies for many countries".[47]

Despite the language which sounds the conventional bells of the marxist world view, this Soviet analysis of Indian development hardly brandishes the red flag. Gradualist and revisionist in its acceptance of evolutionary progress under buorgeois reforms, this analysis is quite clearly non-revolutionary, as the Chinese are not slow to point out. It is not, however, for the unbeliever to cry heresy. We can speculate that the *raison d'etre* of this moderate line lies in the requirements of Soviet diplomacy: if the Soviet Union deems India's friendship worth several hundred millions of roubles in economic aid, it is important that this good neighbour policy be justified by and consistent with the ideological analysis. Whatever the geopolitical reasons, we can see that the Soviet model of development, as found in the post-Stalinist writings of India, is closely patterned on the economic system as it is actually operating. While preferring as much socialisation as possible, it is still tolerant of private capitalism; while denouncing the reactionary attempts of big capital to subvert the independence of the public sector, it admits that Tata can

work hand in glove with the state's policy of heavy industrial development; while pointing out that Indian planning is not of the "scientific socalist" type, the Soviet analysis accepts the principle of its efficacy in a mixed economy. In a word, the Soviet model is neither a revolutionary call to arms nor an oversimplified formula for a quick industrialisation. Though maintaining a distinctive tone and style of both impatience and optimism, it recognises that there is still a long row to hoe. Agreeing in major areas with the analysis of Western experts, it can hardly be credited with playing some occult role as a diplomatic aphrodisiac in the Seduction of the Uncommitted Nations.

"Politics", it has been said, "is the delicate use of blunt instruments." The real reason why the Soviet analysis of India's as of other countries' problems should be taken seriously is to be found both in the sensitivity with which their concepts are manipulated and in the simplicity of the conceptual model itself. At a time when the over-developed theoretical structures of Western social scientists are being challenged for irrelevance by intellectuals in the developing countries, the significance of a much more stable, less exciting and even simplistic marxist-leninist paradigm may be gaining much wider acceptance, especially as the failures of welfare economics to cope with the magnitude of India's problems becomes increasingly evident.

Notes

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2 P V Kutsobin, *Sovremennaya Indiya. Rasstanovka Klassovykh i politicheskikh sil* ("Modern India: Redistribution of Class and Political Forces"), Moscow, Izd Pol, Lit, 1963, p 127.

3 See A M Dyakov, "The National Problem in India Today", Moscow, Nauka, 1966, p 176 and V I Kazakov, *Bor'ba za sozdanie natsional'nykh shtatov v nezavisimoi Indii* ("The Struggle to Found National States in Independent India"), Moscow, Nauka, 1967, p 252.

4 See *Obshchestvenno-politicheskaya i filosofskaya mysl' Indii* ("India's Philosophical and Socio-Political Thought"), Moscow, IVL, 1962, p 263; V I R Gordon-Polonskaya, *Musul 'manskie techeniya v obshchestvennoi mysl' Indii i Pakistana* (Kritika "musul 'manskogo natsionalizma") ("Moslem Currents in India's and Pakistan's Social Thought: A critique of 'Moslem Nationalism' "), Moscow, IVL, 1963, p 326; *Ideologicheskie techeniya sovremennoi Indii* ("Modern India's Ideological Currents"), Moscow, Nauka, 1965, p 196; A D Litman, *Filosofskaya mysl' nezavisimoi Indii (akademicheskie sistemy i religioznofilosofskie ucheniya)* (Independent India's Philosophical Thought: Academic Systems and Religious-Philosophical Teaching"), Moscow, Nauka, 1966, p 268.

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7 Y Yershow, "India: Independence and Oil", Moscow, Progress, 1965, p 181.

8 S L I Aleksandrovskaya, *Industrializatsiya razvivayushchikhsya stran i otnoshenie k nei razlichnykh klassov i sotsial 'nykh sil* ("The Industrialisation of the Developing Countries and Its Relationship with Different Social and Class Forces"), in *Klassy i klassovaya bor'ba v razvivayushchikhsya stranakh* ("Classes and the Class Struggle in the Developing Countries"), Moscow, Mysl', 1967-1968, Vol II, 1968, p 260. (Referred to hereafter as *KKB.*)

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10 A I Levkovsky, "Capitalism in India", Bombay, People's Publishing House, 1966, pp 629-636.

11 A L Batalov, R P Gurvich, G G Kotovskii, L I Reisner, and G K Shirokov, *Itogi razvitiya narodnogo khozyaistva* ("A Balance-Sheet of the National Economy's Development") in *PESRNI*, pp 9-16.

12 A S Solonitskii and O D Ul'rikh, *Puti stanovleniya i razvitiya gosudarstvennogo sektora v osvobodivshikhsya stranakh* ("Ways of Creating and Developing the State Sector in Liberated Countries") in *KKB*, Vol II, p 107.

13 A L Batalov, *et al* in *PESRNI*, *op cit*, p 27.

14 *Ibid*, p 24.

15 *Ibid.*

16 Lozovaya, *Indiya* ("India") in *Plany-programmy ekonomicheskogo razvitiya stran Azii* ("The Economic Development Plans of Asian Countries"), Moscow, 1966, pp 158-159.
See also the general review of Indian planning in the preface by A I Levkovskii in the Russian translation of D Gadgil, *Planirovanie i ekonomicheskaya politika v Indii* ("Planning and Economic Policy in India"), Moscow, IIL, 1963, pp 5-17.

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19 Yu I Loshakov, *Indiiskii monopolisticheskii kapital* ("Indian Monopoly Capital"), *Vestnik Moskovskogo Universiteta*, Seriya VII, No 3, 1967, p 64. See also his thesis abstract, *Kontsentratsiya priozvodstva i monopolii sovremennoi Indii* ("Concentration of Production and Monopolies in Modern India"), Moscow, 1967, p 16.

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21 O V Maev, *Indiiskii monopolisticheskii kapital: zapadnoindiiskie gruppy* ("Indian Monopoly Capital: Western Groups"), *Indiiskii monopolisticheskii kapital: vostochnoindiiskie gruppy* ("Indian Monopoly Capital: Eastern Groups"), *Mirovaya Ekonomika i Mezhdunarodnye Otnosheniya*, No 8, 1966, pp 120-127 and No 3, 1967, pp 118-123.

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27 See in *PESRNI*: L A Gordon, *Gorodskoi nesel'skokhozyaistvennyi proletariat* ("The Urban Non-Agrarian Proletariat"), pp 193-219; L I Reisner and G K Shirokov, *Gorodskaya promyshlennaya i torgovaya burzhuaziya* ("The Urban Industrial and Trading Bourgeoisie"), pp 220-244; L A Gordon, *Intelligentsiya i sluzhashchie* ("The Intelligentsia and Civil Servants"), pp 245-256.

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40 G G Kotovskii, *Sel'skokhozyaistvennyi proletariat i poluproletariat*, ("The Agrarian Proletariat and Semi-Proletariat") in *PESRNI*, p 164.

41 N I Semenova, *Bor'ba sel'skokhozyaistvennykh rabochikh Indii* ("India's Agrarian Workers' Struggle") in *Krest'yenskoe dvizhenie v stranakh Vostoka* ("The Peasant Movement in Eastern Countries"), Moscow, Nauka, 1967, p 142.

42 G G Kotovskii, Introductory article in *Kasty v Indii* ("Castes in India"), Moscow, Nauka, 1965, pp 37,-40.

43 S F Levin, *Ob evolyutsii musul'manskikh torgovykh kast v svyazi s razvitiem kapitalizma* ("On the Evolution of Moslem Trading Castes and Their Links with the Development of Capitalism") in *Kasty v Indii* ("Castes in India"), Moscow, Nauka, 1965, pp 233-261.

44 Yu V Potemkin and V A Sandakov, *Problema nakopleniya v razvivayushchikhsya stranakh* ("The Problem of Accumulation in the Developing Countries") in *KKB*, Vol II, pp 66-67.

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OFFICIAL PAPER

Stability without Development

Economic Survey, 1971-72, Government of India; pp 156; Rs 3.50.

THE Economic Survey, 1971-72, traces economic developments during the year clearly and poses the right issues for policy decision. In a sense, 1971-72 was a tense year. The Bangladesh refugees and the short war with Pakistan imposed a severe strain on budgetary resources. Money supply increased by Rs 625 crores during the first eight months of 1971-72 against Rs 475 crores during the corresponding period of 1970-71 (para 21). The deficit in external trade balance increased from Rs 178.4 crores in 1969-70 to Rs 317.7 crores in 1970-71, and is likely to remain high in 1971-72. Despite all these factors, the price level showed a rise of 3.9 per cent only in 1971 against 6.2 per cent in the previous year.

How did this situation come about? To an extent, the Survey gives credit for this degree of stability to various policy measures taken by the government and the monetary authorities. The government imposed fairly stiff ("unprecedented") doses of taxation and raised additional resources from the market, the monetary authorities followed "a fairly restrictive credit policy" (para 19). The Survey even states: "Suitable action has been taken during the year to check speculative pressures through amending and issuing a number of notifications under the Forward Contracts (Regulation) Act; this action was immediately followed by a decline in the prices of oilseeds" (para 19 and, later, para 50).

One really wishes the government had all this sense of judgment and all these powers. The causes of stability in 1971-72 must be sought essentially in the good agricultural harvests and in the industrial stagnation. Firstly, it is evident that the budgetary cost of the Bangladesh refugees has been exaggerated. The Survey itself indicates that the total cost of refugee maintenance would have amounted to about Rs 340 crores. Allowing for aid pledges of Rs 167 crores for refugees, the net budgetary cost to the government would be about Rs 175 crores only (para 126), though it must be admitted that the timing of aid pledges and aid flows for the refugees must have created some problems. Moreover, thanks to comfortable market conditions, the government was able to increase its borrowings on the market (para 34). Secondly, foodgrains production in 1970-71 rose to 107.8 mn tonnes, enabling substantial foodgrain stocks to be built up. Finally, as the Survey notes, the deceleration in industrial production had begun in the second half of 1970 — a trend which was accentuated in 1971. The Survey specifically states that the deceleration was "fairly pervasive" (para 10).

This trend is also evident from other indicators in the economy. The increase in money supply of Rs 625 crores in the first eight months of 1971-72 was more than fully accounted for by the net increase of Rs 764 crores in bank credit to the government. Net bank advances to the commercial sector actually contracted by Rs 215 crores (para 21). The Survey also accepts (paras 110-111) that the investment rate in the government and the private sector is not likely to have risen as originally budgeted for or planned.

In other words, the economic stability was bought at the cost of industrial stagnation — both in terms of current production and investment for future production. The consequences of this are most clearly visible in the slowing down of the pace of the economy over the last three years. The increase in national income has come down from about 5.5 per cent in 1969-70 to less than 5 per cent in 1970-71 to 4 per cent in 1971-72 (para 3; in fact the rise in 1971-72 is likely to be 3 per cent).

Nor can the inherent dangers to the economy — arising out of the repressed impact of budgetary policies — be minimised. Firstly, while the Survey refers to the large doses of taxation, in fact, these have taken the form of petty surcharges at various levels, thus imparting a mild touch of cost-inflation to the economy. Secondly, while in the past there seemed to have been a direct and immediate relationship between deficit financing and increase in prices, there seems to have emerged a lag in the process in 1971-72. Despite the good foodgrain harvest and increase in buffer stocks, the Survey notes an increase in the index for foodgrain prices ("even foodgrains contributed to this rise", para 17). Since then the need for intervention by the Foodgrains Corporation in the wheat market and the slower rise in the Corporation's demands on bank credit during the 1971-72 busy season point to an accentuation of this

tendency.

The ambivalence in objectives is also evident in monetary policy. The Survey, while referring to restraint on forward trading to curb prices, simultaneously mentions that bank credit for oilseeds was liberalised (para 129). The chapter on Credit Policy is the usual account of expansion of bank branches, taking up of surveys ("steady progress in the *principal task* .... namely, survey of the individual districts ...." *vide* para 141; later, para 149 refers to surveys being done by IDBI) and progress in "the process of consultation" (para 142). The only noteworthy point in the chapter is a brief summary of the recommendations of the Banking Commission, though, considering the fact that the much smaller report of the Committee on Differential Rates "is under the Government's consideration", one can be sure that the Banking Commission's report will collect dust even longer.

The Survey also contains a detailed analysis of the country's external balance position. Imports have been substantially reduced (assuming that the figures are correct) from Rs 1,908.6 crores in 1968-69 to Rs 1,625.2 crores in 1970-71; while the fall in foodgrain imports (from Rs 333.6 crores to Rs 213 crores) is a consequence of the green revolution, it is evident that the decline in fertiliser and machinery imports only reflect the low level of investment in the economy.

The Survey refers to the growing efforts towards self-reliance ("A progressively diminishing dependence on aid has ... been one of the objectives of development planning .... Events during the year have amply vindicated the soundness of the policy ..." *vide* para 157). Gross aid declined from Rs 1,196 crores in 1967-68 to Rs 778 crores in 1971-72 (estimated), and net aid from Rs 863 crores to Rs 328 crores — though one may wonder whether this was due to our policy or due to greater unwillingness on the donors' part.

The Survey makes a broad commodity analysis of imports and exports. However, one notices a tendency to equate self-reliance with import reduction, when what is needed is a greater competence to export. We can always reduce imports to zero, if we want to close our factories and stop investing. What is needed is adequate exports to finance the current and development needs of our economy.

The Survey clearly admits the causes of this decelerating pace of economic growth for the first time for an official document. It refers to the attempts at raising the level of plan investment. However, the rise in development outlay in the union budget was only about 10 per cent (from Rs 1,906 crores in 1970-71 to Rs 2,135 crores in 1971-72, *vide* para 27). The Survey refers also to the large tax effort made by the government and mentions the poor returns obtained from government units, some of whom even failed to cover their depreciation (para 123). Yet the Survey manages to unearth a new scapegoat for this poor performance: "... perhaps the performance of these enterprises cannot be expected to improve significantly unless investments, both by way of installation of balancing equipment and by expansion, have increased" (para 206).

Quoting the Mid-term Appraisal of the Fourth Plan, it states that the overall level of investment in the economy has declined from 14 per cent at the end of the Third Plan to about 11 per cent now, partly because government savings have declined (from 2.4 per cent of national income to 1 per cent of national income) and partly because foreign savings have come down (paras 113-114, also 161). As regards policy, the Survey states: "The revival of investment demand by the public sector is necessary both for the full utilisation of the existing installed capacity and for the creation of fresh capacity which only can ensure steady growth of national income in the coming years" (para 115). This wisdom seems to have dawned on the government years later than it should have. In the meanwhile, valuable production capacity, set up at heavy cost, has been kept idle.

Yet, having stated the objective, one fails to see a clear enunciation of policy to achieve these objectives. This is most evident from the few statements on fiscal policy contained in the Survey. The Survey notes that "the search for finding additional resources will have to be greatly intensified both for enlarging the scale of capital formation as well as for tackling the wide array of problems currently affecting the economy" (para 117) and later suggests: "It is the fiscal barrier which needs to be pierced first" (para 208).

As regards taxation, the Survey stresses two points — the need to increase taxation in the rural sector and the need to increase indirect taxation. Both of these are open to question.

As regards taxation of the rural sector, the level of taxation must be a function of taxable capacity and to that extent the issue is one of the class and property ownership structure in rural areas. The problem is, therefore, sectoral. Firstly, the average income in the rural and agricultural sector is lower than in the urban and non-agricultural sector. Consequently, the capacity to pay direct taxes in the rural sector is limited. Secondly, within the agricultural sector, the income and property structure is quite skewed, and taxation has to reach not a broad mass of people but a narrow section within the agricultural sector. For example, the 31.5 mn agricultural workers and 34 mn holdings with less than 1 hectare owned land can under no circumstances be deemed to have a capacity for paying direct taxes — and they do pay indirect taxes to the extent of their consumption expenditure. Tax resources must be sought in those who own two or more hectares of land.

Secondly, the Survey argues that there are few avenues left for increasing direct taxation. Is this correct? The Survey itself mentions that while revenues from indirect taxation have increased from 4.2 per cent of national income in 1950-51 to 11 per cent in 1970-71, those from direct taxation have increased only from 2.4 per cent to 3 per cent over the same period (para 119). Yet, national income data show that the tertiary sector has been the fastest growing sector in the economy — and this sector covers substantial white-collar employment (as in government and railway service) as also trading incomes. Why has the tax system failed to reach this sector?

Thirdly, the Survey refers to the hazards of deficit financing ("it would be hazardous to resort to inordinate magnitudes of deficit financing"; para 124). In a sense, this is correct, for the economy has absorbed a large volume of deficit financing recently only because it was kept at a low-level equilibrium. Had investment demand been buoyant, the deficit financing could have had serious consequences for the price level. But then the question arises: should the economy choose higher deficit financing and higher investment or be satisfied with the present low-level equilibrium? It is only in such a situation that one comes up against problems of monetary management.

The Survey, however, avoids these problems. In the concluding paragraph, it perorates: "The challenge of rapid economic development thus cannot be met merely by sound economic management. It has to be met also at a much deeper social, political and institutional level" (para 211). However, it should be evident that, despite the much clearer, and more auspicious, economic circumstances, it is at the economic management level that the failings of our development effort have been most obvious during the last five years. It is only when performance at the economic management level is improved, that one can begin to question the institutional framework of society.

The Rashtriya Swayamsevak Sangh—II

Who Represents the Hindus?

Walter Andersen

Upto 1937 the Hindu Mahasabha was a loosely organised group collected around prominent individuals. The two major issues dividing the reformers (in the Hindu Mahasabha), led by Lajpat Rai and Sharaddhanand, from the Sanatanists (the orthodox ones), led by Parmanand, Munje and Kelkar, were the elimination of caste restrictions and political participation. In 1937 Savarkar was elected President of the Mahasabha and settled these differences by resolving to build it into a political organisation representing the Hindus.

By turning the Hindu Mahasabha into a political organisation, Savarkar ensured that whatever support the RSS had rendered to the Mahasabha would cease. Many RSS members were active in the Congress. And the RSS did not want to be associated with a group which would have placed it in direct opposition to the Congress.

During World War II, the Mahasabha sought to enroll Hindus in the army and to negotiate with the British to get itself represented on various government councils. This policy was to fail. The British at the Simla Conference in June, 1945 treated the Congress as the representative of caste Hindus and the Muslim League as the representative of the Muslims.

The weakness of the Hindu Mahasabha was the more apparent because — unlike the RSS — it lacked any youth, peasant or para-military foundations. It tried to make up for this lack by appealing to the RSS, but in vain. It could not become a mass organisation because so many of its supporters were big landlords who were unwilling to allow any hint of mass mobilisation.

Meanwhile, the RSS — due to its unstinted help to Hindu refugees during and after partition — had increased its influence throughout northern India.

In the first part of this four-part narrative, the origins and growth of the RSS were dicussed. The next part covers Gandhi's assassination and the subsequent banning of the RSS. The fourth and final part discusses the genesis of the Jan Sangh and the role played by the RSS in its formation.

IV

AT the time the RSS and its leadership were avoiding political activity, the Hindu Mahasabha HM was becoming increasingly involved in politics. The divergent policies increased the already strained relations between the two Hindu groups.

As mentioned in Part I of this article, the HM was revitalised during the breakdown of communal relations in the mid-1920s. For many years, the organisation was divided between those who desired increasing political participation as an explicitly Hindu group and those who felt the HM should be a forum for expressing the problems of the Hindu community, leaving politics to the Congress. Another conflict in the HM was between the reformers and the Sanathanists (the orthodox ones). While the Sanathanists fought an intensive rear guard action, the reformers have controlled the organisation from 1923 to the present. As we shall show, this latter group toned down its reformist views to get the support of conservatives who had money and local standing, and to unite the Hindus to face what was considered the larger danger — Muslim domination of India. Moreover, the amorphous organisation of the HM prevented it from operationalising any of its reformist views (or political objectives, as we shall demonstrate below).

The HM received its most active support in Maharashtra, Punjab and to a lesser extent in the United Provinces and quite late, in Bengal. In the last three cases, it owed its strength to a reaction to Muslim-Hindu political and social conflict. In the first, however, its leaders were almost all Tilakites with a particular view of the independence struggle and modernity that differed from Gandhi. As mentioned above, the Tilakites gradually withdrew themselves from participation in both the political and social movements led by Gandhi. Kurtakoti, the Shankaracharya of Karvir Peeth, one of the leading Hindu authorities in Maharashtra, expressed a widespread feeling among Hindus in Maharashtra when he stated that the philosophy of non-co-operation by Gandhi "will uproot the very basic principles of Hinduism and Arya philosophy ...". According to him, ahimsa (non-violence) was only an action and like himsa (violence) is in itself not the highest truth in Hinduism. Rather, the motive of an action alone is what determines merit or demerit. In fact, he stated, himsa has often been advocated in religious writings (e g, Krishna's advice to Arjuna). In other words, a worthy goal can have a wide range of means and the means that leads to success should be chosen.[104] Lajpat Rai in his presidential address at the HM session in Calcutta began his speech by specifying what ahimsa meant to him. He felt that the way it was being talked about led to pessimism and passivity. It was a misinterpretation of the stages of grihastha (householder) and sanyasi to demand that a young man give up every wordly, concern to live the life of an ascetic. A young man 'should be' worldly and ambitious. A few young men might lead a life of renunciation,[105] but that should not be preached to the nation, for that led, he felt, to a "slave mentality."[106] Perhaps, Gandhi himself suspected that Maha-

rashtra had martial traditions inherited from Ramdas and Shivaji that made its adherence to his particular nature of spiritual politics difficult. The *Mahratta*, the leading Tilakite English language journal in Maharashtra, commented on a speech Gandhi made in Poona on September 4, 1924,[107] in which Gandhi accused Maharashtra of a lack of faith in his views.

> "If . . . . by faith he means faith in his special programme, Maharashtra will have none of it . . . It need not be concealed that there is a radical, fundamental difference between his shadowy, flimsy philosophy and the hard-headed, solid political knowledge which Maharashtrians have inherited from their illustrious predecessors."[108]

Up to 1925, the Tilakites had, by and large, agreed to follow Gandhi's direction. Their division came on the issue of non-co-operation in councils. Gandhi had supported the 'no-change' view within the Congress.[109] He agreed to the Delhi Special Congress resolution allowing the Swarajya Party to contest seats, but once having won, they were expected to follow a complete obstructionist strategy. The Maharashtrian followers of Tilak favoured responsive-co-operation, a view developed by Tilak, and incorporated in the Amritsar Session (1919). It was this issue — combined with Nehru's temper — that drove a large number of them out of the Congress. When Tambe joined the Central Provinces' Executive Council, a large number of the executive members of the Swarajya Party in the Central Provinces and Bombay Province supported Tambe's move. Many resigned their positions in the elected assemblies as well as in the party. Among them was Hedgewar's political guru, B S Munje. As elections were scheduled for 1926, the leading Tilakites in Bombay and the Central Provinces met at Akola in February and formed the Responsive Co-operation Party. The membership was limited to Congressmen[110] in CP and Bombay. In 1926, Lajpat Rai and Madan Mohan Malaviya formed the Independent Congress, composed of responsivists from North India. A section of non-Congressmen in the Hindu Mahasabha led by Parmanand wanted to contest elections; this was opposed at the 1926 HM session and a compromise worked out by which candidates could be put up in those cases where there was a Hindu candidate who did not protect the interests of his community.[111] The major opposition to HM participation in the elections came from those HM members who were actively participating in the various responsivist parties. The leading spokesman of this view was Lajpat Rai.

The reformers in the HM, led by prominent Arya Samajists like Lajpat Rai and Sharaddhanand had, since 1923, advocated a number of items that they wanted the HM to sponsor — widow remarriage, a minimum age for brides, development of militancy and physical well-being among Hindus, elimination of caste restrictions to promote sanghatan, reconversion, removal of untouchability. The Sanatanists within the HM organised themselves, in part, to counter some of these moves. On some they agreed. The chief public contention arose over integrating the untouchables. Many in the orthodox camp took issue with untouchables inter-dining with caste Hindus and wearing the sacred thread. The spokesman of the orthodox camp, Din Dayal Sharma, mentioned that the chief disagreement with the Sanatanists was about the tendency of the reformers not to follow shastric injunction in making their proposed reforms. Malaviya and Rai were able to arrange compromise resolutions on both political participation and untouchables.[113] But both issues were to divide the HM and eventually cause a large number of Sanatanists and Congressmen to leave it. The *Leader*, in an editorial opinion mentioned the Swarajist fear of potential involvement of the HM in politics,

> "The Swarajists generally have been taking little interest in the Mahasabha movement and a number of them have not disguised their hostility to it." "The elections to the local bodies . . . had opened their eyes to the influence it wielded and they were very anxious . . . that it [HM] should not participate in the elections."[114]

After 1928, Malaviya and other active Congressmen withdrew from the organisation as it came increasingly in the hands of Parmanand, Munje, and N C Kelkar. Moreover, there was a serious split in the ranks over the HM response to the Simon Commission. Those closely associated with the Congress wanted the HM to boycott it. Parmanand and the followers of Munje in Maharashtra decided to co-operate with it.[115] Because of the strong reformist Arya Samaj inclination of the dominant group, the Sanatanists withdrew to rally behind their own orthodox associations (i e, Bharat Mahamandal).

The responsivists continued in the Congress until the change in the Congress Constitution and its ambivalent attitude towards the Communal Award drawn up by the Round Table Conference in London. They were dismayed by Gandhi's decision that Congressmen resign seats in assemblies (many did not resign when the Swarajists withdrew) in late 1929, and the failure of the 1931 and 1932 civil disobedience campaigns to achieve tangible political results. They were most incensed at Congress' refusal to condemn the Communal Award. Munje, the leading HM activist from Maharashtra, warned the Congress that the HM would run its own candidates unless the Congress, at its 1934 Bombay session, opposed the Communal Award in its manifesto.[116] In August 1933, the responsivists had formed the Democratic Swaraj Party in CP, and Bombay, with council entry based on joint electorates its main plank.[117] Their creed was identical to that of the Congress, but did not place itself under Congress discipline. At the 1934 Bombay Session, Gandhi between October 26 and 28, convinced the session to change three items in the Constitution: (1) "legitimate and peaceful" means to achieve aims was changed to "truthful and non-violent", (2) four anna membership was replaced by the stipulation to deliver 8,000 feet of well tested yarn, some of it spun by the prospective member (3) office was limited to those on Congress registers for six months and who had been habitual khaddar wearers for the same period.[118] The Communal Award was neither accepted nor rejected by the Congress. Most of the responsivists, particularly those in Maharashtra, opposed the changes. Some left the Congress. The breach between the responsivists and the Congress was almost complete. In north India, Malaviya formed the Nationalist Party in the United Provinces and the Punjab. After a long absence, he also agreed to preside over the 1936 Poona session of the HM. The HM at its 1933 session, fearing the ambivalent attitude of Congress towards the Communal Award had decided to fight the November, 1934 elections in its own name. This was reiterated (though not without opposition from Parmanand and his supporters) in the 1936 Poona session prior to the 1937 elections.[119]

Strong antipathy, however, still existed between the Congressmen who returned to the HM and those who wanted the HM to become a political party. A dispute broke out soon after the session about the two rival Hindu Sabhas in the United Provinces, the home province of Malaviya, one loyal to Parmanand and the other to Malaviya. At the Lahore Session in late 1936, the two factions came into *open conflict*. Parmanand explained the disagreement with Malaviya's followers. *The Times of India* reported that,

> "He [Parmanand] said that MALAVIYA (*sic*) wanted to hand over Hindu representation in the United Provinces to the Congress, but that unless Hindu Sabha took over the *work*, Government would establish Muhammadan rule there."[120]

The responsivist followers in north India and Maharashtra could not form a united front to oppose the Congress, nor were they able to form any effective alliance with the Hindu Mahasabha.

In Nagpur, Hedgewar himself actively supported the responsivist opposition candidate against Khare, the Congress candidate. In the Central Provinces, the Democratic Swarajists did make an electoral agreement with the Congress which resulted in an overwhelming electoral victory for their combined forces in CP, enabling a ministry to be formed under, N B Khare. Shankar Ramchandra Date, a leader of both the Democratic Swarajists and the HM from Poona, has noted that in Maharashtra the HM supported the Democratic Swarajists. Both political groups ceased to function as effective units by 1943.

Generally, all three groups (Democratic Swarajya, HM and Nationalists) were poorly financed, poorly organised, and made little impact electorally in the elections of 1937. Upto 1937 the HM was a loosely organised group collected around prominent individuals. No single individual united it like Gandhi united the Congress. A change took place with the emergence of Savarkar at the helm of the HM and the war situation which generated much communal identification in anticipation of a struggle for control of India after the war. While Savarkar provided a philosophy and charisma for the HM, his aggressive style and lack of close personal contacts with the RSS leadership drove a wedge between the RSS and the HM (particularly after the death of Hedgewar in 1940).

Savarkar had been imprisoned for his connection with the Nasik Conspiracy and after being imprisoned on the Andamans for eleven years was released with strict limitations on his activities. These restrictions were removed on May 17, 1937. With the active support of Parmanand, he was elected President of the HM in 1937 and remained the leading personality in it until his death. He resolved to build it into a political organisation representing the Hindus of India, like the Muslim League did for India's Muslims. Neither Golwalkar nor Hedgewar wanted the RSS to be too closely associated with a group which would have placed it in direct opposition to the Congress movement. Many RSS members were active in Congress. Moreover, the RSS claimed to be above partisan attachment. By turning the HM into a political organisation, Savarkar ensured that whatever support the RSS had rendered to the HM before would cease. Savarkar was viewed by his HM followers, particularly those in Maharashtra, as the source of inspiration of the Hindu Sanghthan movement. The RSS members were not prepared to accept this as they viewed their own Sarsanghchalak (leader) as the director of the Sanghthan movement. Digambar Badge, an approver in the trial of the murderers of Gandhi, told the court that he believed that Savarkar was not only the leader of the Hindu Sanghthan movement, but a god as well. His birthday was celebrated by HM youths like Shiva Jayanti and Krishna Jayanti.[122] Nathuram Godse, in his final statement to the same court said, "Millions of Hindu Sanghthanists looked up to him as the chosen hero, as the ablest and most faithful advocate of Hindu cause. I too was one of them."[123] The leading Hindu religious figure in Maharashtra, the Shankaracharya of Karvir Peeth, accused Savarkar of messianic visions of himself and advised the HM not to transform itself into a political party.[124]

RSS members have frequently told the author that the HM was a collection of rich talukdars and zamindars with no real organisation capable of defending Hinduism. The organisation that Savarkar inherited was certainly this. Except in a few areas, it remained this.[125] It is a fact that both membership and branch units did increase while he was President of the HM.[126] But it was never effectively organised nor did it ever seriously challenge the Congress for the support of Hindus.

Throughout the Second World War, the HM sought to implement two programmes. One was the campaign to enroll Hindus in the army and the second was the negotiations with the British to get Hindu representation on various government councils. Both were motivated by a belief that Hindus had to prepare for the eventual struggle for power between Muslims and Hindus when the British finally vacated India. B S Munje, at the beginning of the War, defended the militarisation policy by saying,

> "The importance of the move lies in the fact that when after the war the Government will again take in hand the question of Federation, it is the question of recruitment that will count at the time. The balance between the two rival communities, the Hindus and Musalmans, competing for power and domination, will be struck mainly on the numbers for recruitment supplied by each community."[127]

To keep Hindus united, HM leaders felt it necessary to de-emphasise the reform programme. Moreover, they seemed too anxious to please the British authorities by advocating enrolment of Hindus in the military and by advocation of participation in ministries. The organisation was also reluctant to embark on any mass anti-British movements that might alienate government support, Savarkar wrote to the Viceroy,

> "In accordance with the seasoned policy of the Hindu Maha Sabha of responsive co-operation, of occupying every point of vantage with a view to march on further . . . , the Hindu Maha Sabha has decided to participate in and utilise every war effort on the part of the Government which is genuinely calculated to contribute to Indian Defense and to further . . . Hindu interests."[128]

He encouraged the Viceroy to appoint supporters of HM to the advisory council of the Viceroy and the War Committee.[129] Munje wrote to the Viceroy, ". . . between the two communities, the Hindu Mahasabha . . . will be in a position to give immensely large help both in men, material and intellect (*sic*) than the Muslim League can hope to do . . . ."[130] Moreover, the HM organised a Militarisation Board to encourage enrolment of Hindus in the armed forces. Savarkar assured the Commander-in-Chief of British forces that the Hindu Mahasabha would advise Hindus to be obedient to military authorities.[131] At the Madurai session in December, 1940, a Bengali delegate moved a resolution that, if by March 31, 1941, the British did not make an unequivocal declaration conceding Dominion status within one year after the conclusion of war and did not also reject the concept of Pakistan, the HM would launch a programme of mass direct action.[132] Opposition to the proposed direct action developed, particularly among the Maharashtrian leaders who favoured militarisation and saw direct action as a threat to the government's goodwill. The govern-

ment might give advantages to Muslims both in military recruitment and administrative positions if they felt the Hindus were anti-British. Munje's resolution to postpone indefinitely direct action was passed by a vote of 61 to 10 at the Calcutta meeting of the HM Working Committee in June, 1941.[133] Shyama Prasad Mookerjee wrote to Savarkar,

> "UPtil (*sic*) now all big national struggles have had no direct connection with the cause of Hindus as such. Today every Hindu feels the rigours of oppression . . . To my mind the immediate success of such a campaign is not the only point at issue. Such a campaign is necessary for the full propagation of Hindu solidarity among the masses which can only grow as a result of some movement of resistance."[134]

When the violence associated with the "Quit India" movement broke out in August, 1942, a *Fortnightly Report* noted that Savarkar had informed an informal meeting of HM members in Poona to adopt "a policy of neutrality towards the present Congress policy."[135]

After the fall of Singapore on February 15, 1942, Stafford Cripps arrived in India to see if some workable constitutional arrangement could be worked out with India's leading politicians. He met Savarkar, who accepted the scheme of National Government and the HM was offered representation in the proposed government. The Congress Working Committee rejected Cripps' proposals. Even Munje was quite upset that the HM had rushed into accepting the proposals and had the dubious honour of being the first (and as matters turned out the only significant political group to do so) to accept Cripps' plan.[136] While the All-India Hindu Mahasabha did not put up candidates in the elections, various Hindu-minded independents ran for elected office and a few local Hindu Sabhas ran candidates for the provincial assemblies and the Central Assembly in the 1937 elections. Politicians who had some connection with the Hindu Mahasabha participated in ministries in Sind, Bengal and NWFP during the Second World War, sometimes in alliance with the Muslim League. The Congress dominated eight of the eleven provincial legislatures after the 1937 elections. In October, 1940, Congress ministers, but not assembly members, resigned.

Participation was not part of a centralised Hindu Mahasabha strategy as such, but each HM sympathiser took part in the elections on the basis of local problems and pro-Hindu Mahasabha legislators were not organised into a Hindu Mahasabha political party. Savarkar and his followers in the HM activily espoused this policy. There was considerable resentment from within the HM to any co-operation with the Muslim League. This policy must have seemed like rank political opportunism to the RSS, as it did to many other Indians. In a letter to Mehr Chand Khanna, leader of the pro-HM legislators in the North-West Frontier Province, Savarkar advised him to join what was a Congress coalition cabinet as a specifically Hindu Mahasabha member. "This is most essential to get Hindu Mahasabha recognised as an indispensable constituent in any constitution making body which may be called after the war is over."[137] Savarkar also defended the participation of Hindu Sabha sympathisers in those provinces in which Congress ministries had resigned. "If a group deliberately absents itself from any elected body, the remaining representatives, if they can form a corum (*sic*) in case it is required do always and of a right constitute the institution . . ." While leaving the decision to the individual provincial Hindu Sabha, he did lay down a guideline for such participation. Hindu ministers must oppose any move supporting the concept of Pakistan or the right of secession. He felt that the co-operation of the political representatives of the two communities would "train people to get themselves consolidated into an integral common state."[138] Within the Hindu Mahasabha there was a group very much opposed to this policy. Shyama Prasad Mookerjee wrote to Savarkar,

> "The Moslem League today stands as a great hindrance not only to Hindu interests but also to the interests of India as a whole and there should have been no prouncement (*sic*) favouring open alliance or co-operation with the League . . ."[139]

He felt Savarkar had weakened the position of the HM by such a policy, "It is indeed lamentable that your statements should have clouded the issues so much and have encouraged people to think that the Hindu Mahasabha depends on careerists and job-hunters."[140]

At the end of the war, the HM, except in a few scattered places like Bengal, was totally unorganised and with little popular support. Ashutosh Lahiry, a Bengali HM leader, wrote to Savarkar,

> "I am really perturbed at the trend of events that are developing in the Hindu Mahasabha organisation. A Policy of opportunism is not the one which can best serve the interest of the Hindu Mahasabha . . . The field work is being sadly neglected. Mere words . . . will not take us to the desired goal . . . [141]

To a large extent, the HM depended on the contributions of a few wealthy businessmen, certainly a conservative influence. When Jugal Kishore Birla threatened to cut off his contributions — which enabled the head office to function — the HM leadership did their utmost not to displease him. The issue concerned the right of Parmanand to use the office premises for one of his service ventures. This controversy dragged on for several years, leading Parmanand at one point to resign in disgust from the HM. This issue is talked about in a large number of letters (in the Savarkar Files) during World War II.

The RSS itself got involved in this controversy and was forced to discontinue using some parade-grounds, creating a great deal of bad feeling between the two groups in Delhi. The HM had no viable youth, labour or farm organisations and was poorly financed. For this reason, the HM leadership was particularly anxious to get the support of RSS cadres. However, Savarkar, the blunt revolutionary turned politician, and the ascetic Golwalkar were not particularly close to one another. Very few letters either from or to Golwalkar are in the Savarkar Files, unlike the fairly large number between Hedgewar and various Mahasabha leaders. Savarkar hoped to create a Hindu organisation that would organise the Hindus according to his own philosophy popularly referred to as "Savarkarism". That organisation was the Hindu Rashtra Dal, organised by Nathuram Godse.[142] It was never a large organisation, nor did it even approach the success of the RSS in recruiting young Hindus. This action antagonised some RSS leaders. Savarkar is still remembered as a proud Chitpavan Brahmin, unable to work well in groups. Letters in his own files reveal that the HM Delhi office and his own office in Dadar often worked at cross-purposes with each other. He trusted few people. In an otherwise extremely complimentary biography, Dhananjay Keer writes,

> "A leader who passes his days in the grooves of revolutionary methods often suspects the loyalty of his colleagues and sometimes describes those who differ from him as spies or turncoats. Savarkar was no exception to it."[143]

Some HM leaders told the author that the Chitpavans, who formed a disproportionately large number of the leaders of the HM in Maharashtra, were "by nature" proud, practical, and militant. They felt uncomfortable in an organisation like the Congress, led by a "saint", Mahatma Gandhi. They thought that Chitpavans were equally suspicious of the "saint" who led the RSS, Golwalkar. Moreover, this statement was often coupled with the view that the three other major Brahmin groups in Maharashtra could more easily adjust to the ascetic style demanded of RSS swayamsevaks than could the Chitpavans. This hypothesis might be an interesting subject of research.

V

Who represents the Hindus? The HM fought a losing battle with both the British government and other Hindus in getting itself recognised as the representative of Hindus. However, to test the proposition, the Hindu Mahasabha decided to run its own candidates in the central and provincial assemblies after the Second World War. It did very poorly. Its counterpart among the Muslims, the Muslim League, campaigning on the single issue of Pakistan, won almost every Muslim seat in the provinces and every Muslim seat in the central assembly. Few RSS members supported the HM.[144] Of those who voted, most probably voted for the Congress.[145] In despair, Annarao Bhopatkar, Maharashtrian HM leader, wrote to Savarkar, "Democracy thrust on the most ignorant untrained electorate all of a sudden has always proved dangerous to nations and hastened their fall."[146]

The voters had rejected the HM claim to speak for the Hindus. As matters turned out, so did the British. At the Simla Conference in June 1945, the British treated the Muslim League as the representative of the Muslims of India and the Congress as the representative of caste Hindus. The HM was not invited. The Conference failed, principally because the Muslim League refused to participate in an interim government in which the Congress could appoint members who were Muslim.[147] The Cabinet Mission came to India in March, 1946 to see if the Indian political parties could agree to a plan for an interim government and a constituent assembly that would form a proposed constitution for a free India. The Labour Prime Minister of Great Britain, Clement Atlee, announced a tentative plan for a free India to the House of Commons on May 16, 1946. While a separate Muslim state was not included in the proposal, it did involve much that was a concession to Muslim League demands (i e, restricted powers for the centre, division of the eleven provinces of British India into three groups — two with Muslim League majorities in their assemblies — each group preparing a constitution for itself and sitting separately in the constituent assembly, each community given a veto power over any measure that would directly effect it). An interim executive council of fourteen members[148] was proposed. On August 8, 1946 the Congress accepted the plan, but not the Muslim League.[149] Meanwhile communal riots were occurring throughout north India. The Muslim League declared a Direct Action Day on August 16, 1946 to express its demand for Pakistan. Large-scale rioting broke out in Bengal and particularly in Calcutta. In the words of Leonard Mosley,

> "Between dawn on the morning of 16 August, 1946, and dusk three days later, the people of Calcutta hacked, battered, burned, stabbed or shot 6,000 of each other to death and raped and maimed another 20,000."[150]

Severe riots spread to Muslim majority districts of east Bengal. [151]

On December 9, 1946, the Constituent Assembly met without the elected Muslim League representatives. The Muslim League leaders maintained that the Congress was misinterpreting the provisions of groupings contained in Atlee's May 16 announcement. Meanwhile, Atlee appointed Mountbatten Viceroy in place of Wavell, primarily to get a more dynamic person to wind up quickly the procedures leading to independence.[152] On June 3, 1947 Mountbatten, after a series of hectic conferences, broadcast to the nation the proposed division of India and set the date of independence as August 15, 1947.[153] He had the written consent of Congress and the Sikhs and the verbal approval of Jinnah.

VI

Throughout the discussion period, the Hindu Mahasabha opposed the proposed division and sought to organise the Hindus for the anticipated riots that would take place over the division of India As it had no voice in the elected councils and was ignored by the Viceroy, the HM began to turn to the idea of organising Hindus to defend Akhand Bharat. Throughout the period, the most active person in this respect was Munje. In June 1945, he and Allama Mashriqui, leader of the Muslim Khaksars, a personal enemy of Jinnah's, saw each other to see if the HM and the Khaksars could form some sort of alliance with each other. Munje wrote to Savarkar,

> "If the Hindu Mahasabha succeeds in bringing about a combination between Allama Mashriqui and Khaksars and the Hindu Mahasabha, the Government with be startled and will have to think twice."[154]

Ashutosh Lahiry, a constant critic of the lack of organisation in Hindu Mahasabha, wrote to Savarkar that every branch of HM should

> "have along with it a Volunteer Organisation — call it Ram Sena . . . or whatever you like. Wherever there is a Branch Mahasabha there should be a Club, Gymnasium or Akhra (*sic*), where Hindu young men should attend every morning or evening and receive training in various defensive arts and in drilling and in parading."[155]

The HM Working Committee at the beginning of the year had implored the HM to take up work building an All-India Swayamsevak Sangh. The landlords and wealthy businessmen who formed the core of individual sabhas, except for Bengal where the HM had a mass following, had no intention of turning the HM into a mass organisation using agitational techniques.[156] This proposal went unimplemented.

At the end of 1945, the HM planned to launch a direct action protest against Wavell's plan, which seemed to give too much to the Muslims. This was to occur before the elections to the central legislature and the state assemblies. The President of the HM Shyama Prasad Mookerjee, received very little backing from other Hindu Sabha leaders and the plan did not materialise. Savarkar's biographer notes, "It must be admited that Savarkar failed in his promise to resort to direct action at the opportune time. He said right things at the right time, but at this critical moment failed to do the right thing."[157] Part of the general lack of co-operation in the posture of confrontation towards the British revolved around the HM proposal to its members that they renounce the titles bestowed by the British Government. Many of the Rai Bahadurs in the HM protested against this decision. The President of the Oudh Sabha and a member of the HM Working Committee wrote to Mookerjee, "I honestly feel that as long as titles do not fetter in any way one's freedom of speech . . . and action, there is no sense in relinquishing titles." He informed Mookerjee that he intended to resign from various HM positions, feeling that the HM should pursue a policy of responsive co-operation rather than non-co-operation.[158] Part of the lack of co-operation could be attributed to the charisma that Savarkar had built up around himself. When he became ill during the War and relinquished the leadership of the HM to Mookerjee,

many of his devotees either refused to co-operate with Mookerjee or did so with great reluctance. Savarkar held the office of president from the 1937 session of the HM at Ahmedabad till 1944.[159] He remained the dominating figure in the HM for another twenty years.

Besides failing to succeed electorally or to conduct mass contact campaigns, the HM also failed in organising paramilitary groups for Hindus. As related above, an effort was made to get Hindus to enlist in the armed forces. From 1945 to Independence in 1947, the HM kept passing resolutions asking Hindus to organise and arm themselves. After Mountbatten made his broadcast on June 3, 1947 announcing partition, the HM Working Committee met on June 6-7 in New Delhi and passed a resolution asking Sikhs and Hindus to organise a Hindustan National Guard. This, like other efforts, met with little response.[160] In desperation, some HM leaders, notably Maharashtrians, looked on the princes as potential rallying points to a militant Hinduism. L B Bhopatkar, writing in *Mahratta*, called on the Hindu princes not to co-operate with Congress, but to organise a union among themselves. He advocated the formation of a Mahratta Confederacy which would be the nucleus of a Hindu India.[161] After a long history of demanding an undivided India, the HM Working Committee met on June 6-7, 1947 in New Delhi, and begrudgingly accepted division, but proposed a Day of Protest against division. It recognised the necessity, under the circumstances, to divide Bengal and the Punjab.

Shortly after the announcement, events in Punjab were to create a great following for the RSS. Large numbers of Punjabis were attracted to it and as they spread out over India and spread the influence of the organisation. In earlier riots in Bengal and eastern Bihar, the RSS was only marginally involved as it was relatively weak in those areas.

VII

By admission of their own leaders, the RSS at the time of partition in Punjab, was largely composed of urban high caste Hindus. During 1946-47, it grew rapidly. Punjab during World War II was governed by an unstable coalition of Unionists (Muslim and Hindu landlords), Akalis, Congress, and Independents, with a Unionist Chief Minister, Khizar Hayat Tiwana.[162] Tiwana, no friend of Jinnah's, had been expelled from the Muslim League, leading to a split among the Unionists. The results of that rift appeared in the 1946 elections when it won only 10 seats. All three religious groups (Sikhs, Hindus and Muslims) were collecting arms and getting ready for open warfare. On January 24, 1947, Tiwana's government declared the Muslim League's National Guards an unlawful body. According to Chaudhri Muhammad Ali,

> "To keep up appearances, Rashtriya Swayamsevak Sangh, a militant Hindu organisation, was also declared unlawful, but no action was taken either against the Congress volunteers, or the Sikhs who, as everyone knew, were busy collecting arms."[163]

The Muslim League reacted to this challenge by declaring a non-violent mass struggle. Its purpose was also to demonstrate the "injustice" of denying the largest single party their "just" right to rule. Unable to curb the movement, the government was forced to rescind the order on January 28. According to a reliable witness of partition events in Punjab, "The hooligan Muslim elements in the big cities perceived all too clearly the weakness of the Government; the forces of law and order, not too staunch in any case, became puzzled and doubtful of what was expected of them."[164] Moreover, a police force, about 75 per cent Muslim, could not be expected to enforce such action with any enthusiasm.[165] On March 3, the ministry resigned, leaving the field to the Muslim League to form the coalition. The Governor did ask the Muslim League to form a ministry, but the Hindus and Sikhs would not support it and took out demonstrations against the Muslim League. Terrible communal riots soon broke out. Though there were clues in March of the holocaust that was to follow, many political leaders felt that once partition was accomplished the minorities would adjust themselves. Typical of the Congress view regarding the future of minorities in Pakistan and India was Nehru's comment in mid-1947, "There is no reason why minorities there ... should be tyrannised and persecuted."[166] Some prominent Congressmen, such as Vallabhbhai Patel, felt that the new state of Pakistan would not survive and the long run possibility of a Hindu minority continuing to live in Pakistan did not exist. As it became clear that there was a potentiality for mass violence, it was decided at a Partition Council meeting in July 1947, to create a Boundary Force composed of mixed troops under a British commander. It was disbanded in September 1947, on the insistence of both countries. Penderel Moon's diagnosis of the weakness of this force was typical of complaints raised against it. He felt that the troops themselves would be infected by the communal virus and prove unreliable. They would, even in the absence of a shift of the populations, be inadequate in numbers to deal with the enormity of the problem.[167] Both countries agreed to shift the administrative personnel of the minority community on their side of Punjab to the other side. Strangely, this same principle was not applied to the general population. In view of the rapidly deteriorating communal situation *after* Independence, both countries finally reached an agreement to move the minority population.[168] The same complaints regarding the military administration apply to the administrative agencies established to remove the minority populations. Within a few months, millions of people moved across the border of the two countries. Besides the miseries involved in suddenly leaving their homes and businesses, the refugees had to pay highly inflated rates for various means of transportation.[169] The urban refugees [170] faced particularly severe problems of relocation — lack of adequate housing, lack of employment in their prior occupations, lack of investment opportunities.[171]

It was in this setting of aroused communal frenzy and misery that the RSS rendered service to the Hindu and Sikh refugees; this was to provide enormous goodwill for it later and was to have a pronounced effect on voting patterns for the political party incorporating the ideology of the RSS — the Jan Sangh. As the refugees spread out over northern and western India, they took the RSS with them and served as the membership nucleus for new shakhas. Many of the full-time RSS cadres emerged from this group. The RSS membership reached a peak in 1947 which it has not equalled until recently.[172] The core of the Punjabi membership were Arya Samajis or the sons of Arya Samajis.[173] Thousands of Swayamsevaks helped organise rescue squads, guarded refugees,[174] provided food and medicine, and even led some refugee groups into India. Vallabhbhai Patel, the Deputy Prime Minister, himself appreciated this service of the RSS and was reluctant to take strong action against it as long as the disturbances continued. He considered the RSS members patriots, if a bit misguided. On January 6, 1948, at Lucknow, he implored Congressmen to draw the RSS members into their own organisation. "They are to be won over by Congress with love."[175]

As the Punjabi refugees poured into Delhi, the communal riots spread to that city. They were greatly disillusioned with the Congress party, and particularly angry with Gandhi.[176]

Gandhi was horrified at what was taking place in the city and decided to take the ultimate step to stop the rioting — undergo a fast. He began his fast on January 12, 1948,[177] and ended it on January 18 only after leaders of the Sikh and Hindu communities in Delhi verbally promised him that they would adhere to his six point programme to end the ill-will. This rather proforma agreement did not reflect the views of a large part of the two communities, as Azad himself admits.[178] Part of this reaction was the result of hatred built up during the communal frenzy in Punjab, but part of it was based on the view that Muslims were disloyal and a danger to the state. Many prominent Congressmen believed this. Patel subscribed in part to this view.[179]

In Delhi itself, the RSS organised an impressive relief programme for refugees. It organised a group called the Hindu Sahayata Samiti in April 1947 under the presidentship of Hans Raj Gupta, who was later to become mayor of Delhi.[180] Swayamsevaks would meet the refugees as they arrived from Punjab and take them to one of the four lodging camps.[181]

(To be continued)

Notes

104 *Mahratta*, October 29, 1922.
105 *Leader*, April 13, 1925.
106 *Ibid.*
107 The occasion was the unveiling of a statue of the revolutionary, Vishnushastri Chiplunkar.
108 September 7, 1924.
109 The 'no-change' view was that the Congress should continue to boycott completely the electoral process.
110 See *Mahratta*, February 21, 1926, for an account of this.
111 *Leader*, March 17, 1926.
112 See a discussion of this in Indra Prakash, "Hindu Mahasabha: Its Contribution to India's Politics", Delhi, 1966.
113 See *Leader*, March 15, 17 and 18, for summary of events at 1926 HM session.
114 *Leader*, March 18, 1926. Among those at the 1926 HM session was Motilal Nehru, who wrote a statement to the session imploring HM members to join Congress, a larger platform of all communities, rather than splitting the already divided Hindu community by running candidates who would oppose fellow Hindus. He admitted that, "It is no use concealing the fact that the Indian National Congress is predominantly a Hindu organisation." *Leader*, March 17, 1926.
115 See Prakash, *op cit*, pp 36-40 for a discussion of the disagreement.
116 *Mahratta*, June 10, 1934.
117 *Mahratta*, October 8, 1933.
118 See Bose, *op cit*, discussion pp 269-71.
119 See the development of the HM into a political party in *Mahratta*, August 30, 1940.
120 *Times of India*, November 24, 1936.
121 Private correspondence, January 1970.
122 Dhananjay Keer, "Veer Savarkar", Bombay, 1966, p 410.
123 Page 11 of the mimeographed statement of Nathuram Godse, given to the writer by his brother.
124 *Mahratta*, July 8, 1938.
125 There is evidence that Savarkar was very much aware of this himself. The *Mahratta* reports a conversation of Savarkar with a Congress Socialist leader who made the same charge. Implicitly accepting the accusation, he responded by saying he planned to make the HM a progressive and living organisation. *Mahratta*, April 22, 1938.
126 An incomplete report, entitled "Report Received by the Presidential Office up to the 1st August, 1940" in the Savarkar Files at Dadar, notes that there were some 66,000 members in 1940 with two-thirds of them in Bombay Province and Bengal.
127 Munje Files in Nehru Museum, No 3, 1939, pp 98-9.
128 Letter to Viceroy of August 19, 1940, Savarkar Files.
129 *Ibid.*
130 Letter to Viceroy of September 25, 1940, Savarkar Files.
131 Letter to J P Shrivastav, MLA, of March 3, 1941, Savarkar Files.
132 See *Times of India*, December 30, 1940, for discussion. The Bengali leaders were politically astute and recognised that the HM could build an effective organisation only after engaging in mass movements that articulated the demands of the people, even if this antagonised the British.
133 There was concerted opposition to this move within the HM. See an account of this in *Bombay Chronicle*, June 16, 1941.
134 Letter of January 28, 1941, in Savarkar Files.
135 Home Political (I), first half of August 1942, 18-8-42. Savarkar on the day after this meeting did tell a HM group that the HM did agree with the aims of the 'Quit India' movement. Presumably, he disagreed with the timing of it.
136 Letter to Savarkar, April 9, 1942, in Savarkar Files.
137 Letter of June 12, 1943, in Savarkar Files. He gave the same advice to Rai Bahadur Gokulchand, a minister in Sind Province. Letter of November 4, 1942, in Savarkar Files.
138 A mimeographed circular in the Savarkar Files.
139 Letter of July 22, 1943, in Savarkar Files.
140 *Ibid.*
141 Letter of May 5, 1945, in Savarkar Files.
142 During a speech in Poona, Savarkar complimented the Hindu Rashtra Dal by stating that the consolidation of Hinduism "could not be principally preached in any other Hindu organisation." Reported in Keer, *op cit*, p 363.
143 Keer, *op cit*, p 359.
144 An exception seems to have been the Marathi speaking part of Bombay Province.
145 Interview with J P Mathur, Jan Sangh Office Secretary in Delhi, who was an active Swayamsevak in 1945 and 1946, on January 29, 1969. This view was repeated to the writer by many other persons active in the RSS during those years. Most HM members interviewed also agree with this opinion.
146 Letter of December 7, 1945, Savarkar Files.
147 See R C Majumdar (General Editor), "Struggle for Freedom", Bombay, 1969, p 718.
148 Congress, 5 Muslim League, 1 Sikh, 1 Indian Christian, and 1 Parsi.
149 The Muslim League did, however, join the Interim Government on October 12, 1946, after the Congress members themselves had begun operating the Interim Executive.
150 L E Mosley, "The Last Days of The British Raj", London, 1961.
151 There is a controversy between Pakistani and Indian writers over the severity of the east Bengal riots. See Chaudhri Muhammad Ali, "The Emergence of Pakistan", New York, 1967, p 85. Pattabhi Sitaramayya in the second volume of "History of the Indian National Congress", Delhi, 1969, p 867, presents a far more serious situation.
152 Mountbatten gave this reason to Alan-Campbell Johnson, "Mission with Mountbatten", Bombay, 1951, pp 15-17.
153 Congress had previously accepted the principle of division on May 1, 1947.
154 Letter of June 17, 1945, in Savarkar Files.
155 Letter of March 3, 1945 in Savarkar Files.
156 The Hindu Sabha in Bengal was popular in a way no other provincial sabha was. It was led by a dynamic group of high caste Hindu lawyers who had organised the Sabha for political purposes against the Muslim dominated ministries there. These ministries were implementing legislation, which the wealthier Hindu community felt undermined its position of influence in the province, as well as selectively recruiting Muslims to fill vacancies in the public services.
157 Keer, *op cit*, p 366.

158 Rai Bahadur Kunwar Guru Narain to Shyama Prasad Mookerjee on August 27, 1945, in Savarkar Files. On September 5, 1945, Mookerjee accepted his resignation and responded that "responsive co-operation does not mean unconditional co-operation." Letter In Savarkar Files.

159 From 1942, Savarkar had wanted to resign because of illness, but was persuaded by HM members to remain; for a large part of this time, Mookerjee had acted as working President of HM. It was well known in the HM that the two often disagreed over HM policy (i e, over joining ministries with the Muslim League). Disagreements grew, so that in 1944 Mookerjee threatened to discontinue his activities in HM. Letter from him to Savarkar of April 9, 1944 in Savarkar Files.

160 Many Hindu para-military groups did organise, but few under the direct management of the HM.

161 *Mahratta*, July 4, 1947. Later Savarkar in the same vein supported the independence move of the Maharaja of Travancore.

162 In 1946 elections the Muslim League won 79 of 86 Muslim seats, Congress 51, Panthic Akali Sikhs 22, Unionists 10, and Independents 10. See Satya M Rai, "Partition of the Punjab", Bombay, 1965, pp 39-46, Chaudhri Muhammad Ali, "The Emergence of Pakistan" New York, 1967, pp 100-103, Penderel Moon, "Divide and Quit", pp 71-96.

163 Chaudhri M Ali, *op cit* p 101.

164 Penderel Moon, *op cit*, p 76.

165 *Ibid*, p 78.

166 Quoted by Michael Brecher in "Nehru, A Political Biography", London, 1959, p 367.

167 Penderel Moon, *op cit*, p 95. Moon's experience in Bahawalpur state reveals the complicity of the troops in the disturbances, and the desire of Muslims to rid that state of all Hindus, as quickly as possible.

168 The immensity of the task can be seen in observing that in 1941, there were approximately 3,800,000 non-Muslims in West Punjab and about 5,300,000 Muslims in East Punjab. Rai, *op cit*, p 78.

169 Reports on this in East Punjab Liaison Agency Records as cited in Rai, *op cit*, pp 87-8. A large number of refugee camps were set up all over India. Over 160 such camps accommodating some 1,250,000 refugees were established in India. *Ibid*, p 108.

170 1,090,000 according to Rai, p 120. This figure does not include some 300,000 rural refugees who moved to urban areas in India.

171 See Rai's rather exhaustive study of the situation in Chapter VI.

172 Interview with Eknath Ranade, January 1, 1970.

173 Interview with Madhav Rao Mule, July 31, 1969. The Arya Samaj was a reformist Hindu sect particularly strong in the urban areas of Punjab.

174 Lahore's DAV college was a centre used by the RSS for assembling refugees before escorting them into India.

175 Quoted by Kewal L Panjabi, "The Indomitable Sardar", Bombay, 1962, p 131.

176 Not only refugees were antagonistic to Muslims. Azad writes, "Trouble was not confined to the refugees or even to the general public. Even the areas where only Government servants lived were involved. When the reports of massacres in the West Punjab reached Delhi, Muslims in the city were attacked by mobs of unruly men. Some Sikhs took a leading part in organising these murderous attacks in Delhi." Abul Kalam Azad, "India Wins Freedom", Calcutta, 1959, p 201.

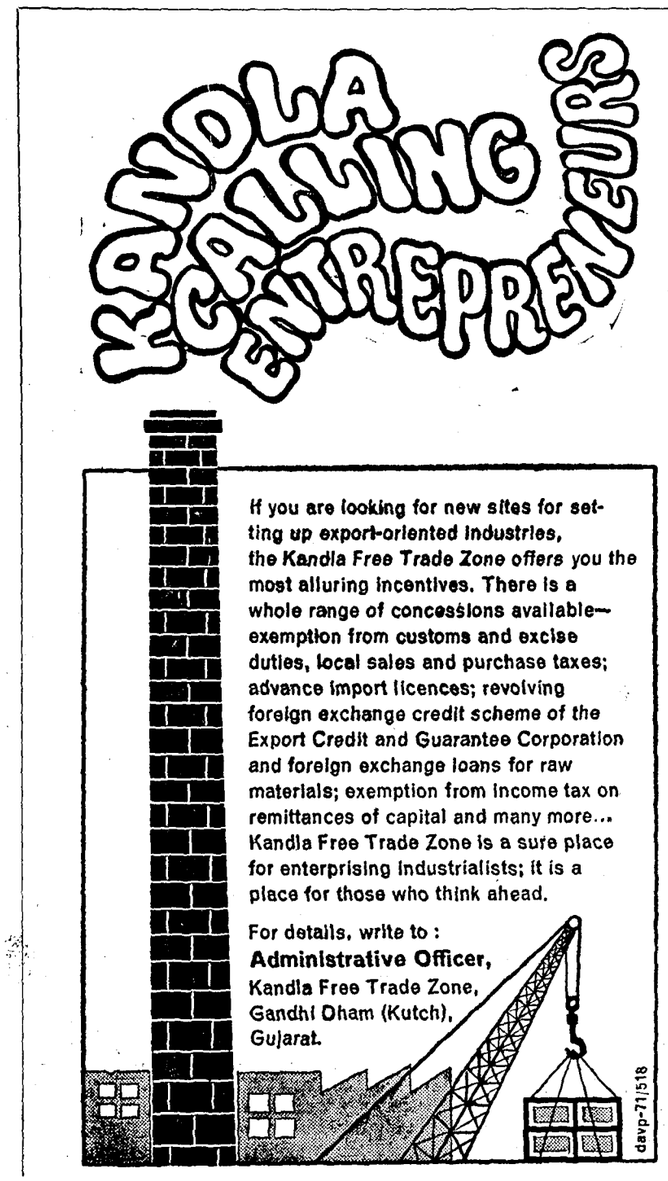
177 See Azad for description, pp 213-22.

178 *Ibid*, pp 221-2.

179 See Punjabi, *op cit*, pp 130-31.

180 *Organiser*, August 21, 1947.

181 *Organiser*, August 21, 1947.



Perspective for Economic Development of Bangladesh

Deb Kumar Bose

Anil Chatterjee

The objective of this paper is to examine the possibility of Bangladesh achieving self-sustained growth for its economy, and its likely relations with the Indian economy in this context.

It is only natural that Bangladesh, emerging from its subservience to the economy of West Pakistan, will seek to develop its own economy on an independent basis. Not being endowed with a variety of natural resources adequate for its needs, Bangladesh will have to depend on a skilful development of its foreign trade to make up for this fact. In this respect, the situation of Bangladesh compares with that of Japan. However, Bangladesh's proximity to India may be advantageous to it. It can be shown that the objective of viability of Bangladesh's economy could be pursued with benefit to both countries.

THE pattern of foreign trade of a country is determined by the structure of its economy. Table 1 gives statistics of East Pakistan's foreign trade in 1964-65.

The chief items of export from East Pakistan, *viz*, jute, tea and other agricultural products, reflected the agrarian character of the economy. Items of import comprising goods such as coal, raw cotton, textiles, oil, wheat etc, indicated the weakness of East Bengal's industrial base.

It may be seen that nearly half of East Bengal's imports were from West Pakistan, and included a large volume of cotton products which could have been manufactured in East Pakistan itself.

Table 2 contains data on the production of selected industries in East Pakistan.

The major industries in East Pakistan were jute and textile mills, which were inherited from the pre-Partition days. Some of these were modernised later. Among the new industries established after 1947, mention may be made of a steel mill, a refinery, and natural gas, chemical fertilisers and newsprint producing industries. The jute industry maintained a sustained rate of growth over the years. Its production rose by 2.5 times between 1955-56 and 1963-64. In contrast, production of cotton textiles, the next most important industry, registered hardly any increase over the same period. In fact, the level of production declined significantly during 1963 and 1964. The progress in the other industries—paper, cement, matches, chemicals etc—has been moderate to reasonably high. However, their weights in the total of all industries have not been large.

The stagnation in large sections of the industry in East Pakistan resulted from the discriminatory policy pursued by West Pakistan. This is reflected in the foreign trade figures, over the years, shown in Table 3.

The history of foreign trade of East Pakistan was chequered with evidence of unequal treatment meted out to it by West Pakistan. Till 1959-60, East Pakistan had a surplus account on overall balance of trade, notwithstanding its trade accounts with West Pakistan which showed a high negative balance. By 1964-65, the overall trade balance of East Pakistan turned negative. Even then it had a favourable balance in trade with countries outside Pakistan. Through all these years, West Pakistan recorded a growing adverse balance of trade with the rest of the world. West Pakistan continued to import capital goods and intermediate goods to build up an industrial base, denying a corresponding opportunity to East Pakistan to expand her industries. This may be seen from figures in Table 4.

The policy of discrimination towards two wings of Pakistan is also reflected in the estimates of fixed investment. Throughout the period of planning, less than one-third of the total fixed investment of the country was for the Eastern wing and more than two-thirds were utilised for the industrial development of the Western part. The potential for development of even agro-based industries in East Pakistan was ignored. As a result, unlike in West Pakistan, there was no change in the production structure of East Bengal whose economy remained lopsided as before. Even at the end of the Second Five-Year Plan (1964-65), the manufacturing sector as a whole contributed only 8 per cent to the total gross product of East Pakistan. It was thus forced to import practically all of her requirements of manufactured goods. While East Pakistan accounted for 50 to 60 per cent of total exports by Pakistan to the rest of the world, it received only 30 per cent of all commodities imported by Pakistan (see Table 3).

A further setback to the economy of East Pakistan occurred with the cessation of trade with India after the Indo-Pakistan hostilities in 1965. Table 5 shows that East Pakistan used to import a wide range of goods from India—including coal, manufacture of iron and steel, machinery, building and engineering materials, vehicles and transport equipments, vegetable oil etc. Exports to India consisted of raw jute, fish, raw hides and skins, rice etc.

With the snapping of its ties with India, East Pakistan had to import these goods either from West Pakistan or from the rest of the world — and this raised the cost of imports significantly by the addition of transport cost. The position was aggravated by Pakistan's stand on devaluation when Britain and other Commonwealth countries devalued their currencies in 1949. Pakistan's decision not to devalue its currency put East Pakistan particularly to difficulty. Pakistan's rate of exchange was overvalued relative to that of other countries. It could buy things from others cheaply, but had to sell dearly. This meant East Pakistan had to face difficulties with its exports but West Pakistan reaped the advantage of cheaper imports. The glaring disparity in the situation becomes evident when one considers the trade statistics for the Second Plan period 1960-61 to 1964-65 (Table 3). During this period, East Pakistan exported an average of Rs 126 crores of goods per year to other countries and imported commodities worth Rs 121.9 crores. In contrast, West Pakistan's export to other countries amounted to Rs 85.7 crores per year and her imports Rs 277.2 crores. No wonder the ruling

clique in West Pakistan would not like to devalue the currency.

Although the pattern of trade before 1965 was good enough to yield a trade surplus for East Pakistan, its weakness lay in the fact that it was based entirely on agriculture. The chief items of export for Bangladesh are jute, tea, fish, vegetables and other agricultural products. While such items could sustain the foreign trade of Bangladesh for some more time, their long-run prospects in the world market do not appear promising.

Jute, for instance, has been facing competition from polythene and paper products. A number of developing countries are set on cultivating tea for themselves. However, the new relationship with India opens up new possibilities in foreign trade on jute. Bangladesh and India taken together hold a near monopolistic position in the world market. Formerly, the two competed against each other, yielding advantages only to the buyers in the developed countries. It is imperative that a consultative council be formed with the state trading agencies of the two countries with a view to organising joint price policy in the international market.

India can also absorb a considerable volume of fish, poultry and agricultural products such as vegetables, fruits, etc. Fish can be processed for exports to other countries. Leather products, like boots and shoes, can also find a ready market in many other countries.

Nevertheless, the aspirations of Bangladesh for self-sufficiency cannot be achieved without transforming the base of its economy into an industrial one. It will be necessary to earn more foreign exchanges for importing machinery to meet this end. Reduction of imports and increase of exports are complementary means of increasing the foreign exchange assets of a nation. An improved base for agriculture can help reduce agricultural imports substantially. East Pakistan which used to export rice was reduced to import 1.6 lakh tons of rice in 1967-68. With its peculiar conditions of flooding in most of its cultivated areas, East Bengal cannot effectively use fertiliser for crops. Improved variety of seeds have thus been developed which can withstand monsoon floods. In the current phase to boost production immediately, it may be necessary to concentrate on organisation of large-scale seed farms. There is also enough scope for extending the present acreage under the second crop, boro, to rice. The phenomenal success in West Bengal in this respect can surely be repeated in Bangladesh.

Wheat used to be imported from West Pakistan and elsewhere. Bangladesh can profit from the recent experiences in the cultivation of wheat in West Bengal. The high-yielding seeds and the relatively little water

TABLE 1: FOREIGN TRADE OF EAST BENGAL, 1964-65

(Rs in million)

Exports		Imports	
Commodity	Value	Commodity	Value
To Foreign Countries		*From Foreign Countries*	
Raw jute	845.3	Machinery	511.2
Jute manufactures	292.3	Metals and ores	341.6
Hides and skins	20.0	Mineral oils	73.8
Fish	46.0	Vegetable oils	125.7
Tea	10.0	Coal and coke	49.1
Others	54.3	Vehicles	49.0
		Drugs and medicines	33.9
		Textiles	19.9
		Others	497.6
Total	1,267.9	Total	1,701.8
To West Pakistan		*From West Pakistan*	
Tea	185.4	Cotton fabrics	183.7
Jute manufactures	104.9	Cotton yarn	78.1
Paper and paste board	85.9	Raw cotton	81.3
Matches	26.2	Rice	13.8
Leather	22.6	Edible oils	11.6
Others	185.2	Boots and shoes	2.8
		Tobacco	89.5
		Wheat and flour	5.7
		Others	408.0
Total	610.2	Total	874.5

Source: Haroun Er Rashid: "East Pakistan — A Systematic Regional Geography".

TABLE 2: PRODUCTION OF SELECTED INDUSTRIES IN EAST PAKISTAN

Year	Paper: Printing ('000 tons)	Paper: Newsprint ('000 tons)	Jute Goods†† ('000 tons)	Cotton Cloth ('000 yds)	Sugar Refined ('000 tons)	Chemical Fertilisers (urea) ('000 tons)	Cement ('000 tons)	Cigarettes (millions)	Silk and Rayon ('000 sq yd)	Safety Matches ('000 gross box)
1955	8.0	—	130.3	62801	47	—	54	399	—	3083
1956	13.3	—	146.5	61995	47	—	53	436	—	4342
1957	14.9	—	157.8	56658	30	—	57	602	—	5343
1958	12.2	—	203.5	65217	36	—	57	871	214	6774
1959	13.0	3.5	256.3	63872	59	—	44	967	222	7744
1960	14.8	21.4	248.9	64761	63	—	69	1264	368	9239
1961	18.7	28.8	271.1	69372	57	—	96	1983	414	9384
1962	18.3	30.6	298.2	62765	71	43	90	3194	333	9717
1963	15.1	31.4	330.9	49760	76	98	77	4408	42*	10580
1964	19.6	33.7	—	48434	86†	86	48**	5241†	—	9918†

Notes: * Data relate to 6 months from July to December.
** Data relate to 10 months from June-March and May-November.
† Provisional.
†† Data relate to financial years.

Source: Statistical Digest of East Pakistan, Number 2, 1964, pp 100-115.

requirements for wheat have encouraged cultivators of West Bengal to take to it as a second crop on a wide scale.

Bangladesh can profit from the extension of area under sugarcane. Although the yield per acre of sugarcane in East Pakistan was considerably larger than that in West Pakistan — being 532 tonnes compared to 367 tonnes per acre in 1966-67 — the acreage in West Pakistan was 1,600 compared to only 413 in East Pakistan. This was the result of wilful neglect on the part of the ruling power.

The viability of agriculture in modern times, however, depends on support from industries. The country has to provide for the supply of fertilisers, pesticides, pumps, tubewells, and agricultural implements to agriculture in order to raise its level of production. With the extensive base for agriculture in Bangladesh setting up of industries to meet these demands should be found possible.

Table 6 shows that East Pakistan's imports of industrial goods from West Pakistan consisted of cotton textiles, cement, machinery, basic metals and metal products, transport equipments, chemicals and drugs, etc. India could help Bangladesh by filling the gap created by the severance of relations with Pakistan. India can supply it with machinery from its engineering industry. Industries in India can be of great help in the setting up of new industries or in the expansion of existing ones. Import of machinery and spares from India would be economic for Bangladesh because of her location and relatively low wages in India compared to in advanced economies. India stands to gain through such trade arrangements. India is faced with the problem of excess capacity in a number of industries, particularly in heavy and medium engineering industries. Supply of capital and intermediate goods to Bangladesh would help growth of industrial production in India.

Bangladesh will need to expand the capacities of its existing industries like textiles, cement, sugar, and fertilisers, to meet its own requirements. Indian industries should be able to deliver most of the equipment for this. India may be interested to develop a number of industries whose products can be of use to her. India can supply raw materials like iron ore and rubber for processing in Bangladesh industries. Both these are available in India for export. There is demand in Bangladesh for light engineering products like bicycles, sewing machines, torches, fans, electrical goods, wires and cables, which would justify their production in Bangladesh. Bangladesh will need structural materials of steel for building bridges and railroads. The world market for industrial goods is an expanding one, and Bangladesh can find it profitable to plan for the export of suitable manufactures. There is thus sufficient basis for planning for medium and light engineering industries in Bangladesh.

The geographical contiguity of territory has meant a large measure of interdependence between the two countries. It calls for joint action by the two States on a number of points. The major rivers in Bangladesh, for instance, have their origin in India. The river systems of the two countries are intertwined and no effective measures for control of flood and utilisation of water for various uses would be possible without joint planning. Absence of such an approach has caused difficulties to both the States. The loss of crops and human lives from floods have often assumed huge dimensions. Flooding of wide areas

TABLE 3: COMMODITY IMPORTS AND EXPORTS FOR EAST AND WEST PAKISTAN FOR INTER-WING AND FOREIGN TRADE — ANNUAL AVERAGE

(Rs in million)

	Pre-Plan: 1950-51 to 1954-55	First Plan 1955-56 to 1959-60	Second Plan: 1960-61 to 1964-65
East Pakistan			
Imports from abroad (c i f)	439.4	624.8	1,219.2
Imports from West Pakistan	287.8	564.3	881.5
Total imports	727.2	1,189.1	2,100.7
Exports to abroad (f o b)	863.4	979.8	1,260.3
Exports to West Pakistan	125.7	280.6	457.0
Total exports	989.1	1,260.4	1,717.3
Balance of trade with West Pakistan (X—M)	—162.1	—283.7	—424.5
Balance of trade with abroad (X—M)	424.0	355.0	41.1
Balance of trade combined	261.9	71.3	—383.4
West Pakistan			
Imports from abroad (c i f)	1,053.1	1,525.0	2,772.7
Imports from East Pakistan	125.7	280.6	457.0
Total imports	1,178.8	1,805.6	3,229.7
Exports to abroad (f o b)	852.8	616.3	857.2
Exports to East Pakistan	287.8	564.3	881.5
Total exports	1,140.6	1,180.6	1,738.7
Balance of trade with East Pakistan (X—M)	162.1	283.7	424.5
Balance of trade with abroad (X—M)	—200.3	—908.7	—1,915.5
Balance of trade combined	—38.2	—625.0	—1,491.0

Source: Stephen R Lewis, 'Pakistan, Industrialisation and Trade Policies', p 143. (Computed from Pakistan CSO Bulletin, May 1967, for foreign trade and 'Economic Survey', 1966-67 for inter-wing trade.)

TABLE 4: AVERAGE ANNUAL IMPORTS OF CAPITAL GOODS PLUS MATERIALS FOR CAPITAL GOODS INTO EAST AND WEST PAKISTAN: PRE-PLAN AND FIRST PLAN PERIODS

(Rs in million)

	Pre-Plan Period 1951-52 to 1954-55				First Plan Period 1955-56 to 1959-60			
	Capital Goods	Material for Capital Goods	Total	Per Cent	Capital Goods	Material for Capital Goods	Total	Per Cent
East Pakistan	109.7	56.6	166.3	31.1	176.5	92.0	268.5	29.9
West Pakistan	265.2	102.4	367.6	68.9	466.4	162.0	628.4	70.1
All Pakistan	374.9	159.0	533.9	100.0	642.9	254.0	896.0	100.0

Source: Stephen R Lewis, 'Pakistan, Industrialisation and Trade Policies', p 146. (Computed from Nurul Islam, "Imports of Pakistan: Growth and Structure", Karachi, 1967, Tables B-11 and B-12.)

TABLE 5: FOREIGN TRADE OF PAKISTAN WITH INDIA IN SELECTED COMMODITIES, 1964-65
(Rs in 000)

Imports	Value	Exports	Value
Building and engineering Materials	1653	Raw jute	102184
Coal and coke	47344	Raw hides and skins	4931
Iron and steel and manufacture thereof	15934	Fish and canned fish	44544
Machinery	7892	Rice	37024
Vehicles	1502	Raw cotton	25594
Seeds	3353	Others	5518
Paper, paste boards and stationery	2226		
Drugs and medicines	3312		
Cutlery and hardware etc	2835		
Fruits and vegetables	3070		
Spices	5015		
Dyes and colours	2578		
Others	30956		
Total	127670	Total	219795

Source: Pakistan Statistical Year Book 1968, pp 178 and 247.

TABLE 6: EAST BENGAL'S EXPORTS TO WEST PAKISTAN AND IMPORTS FROM WEST PAKISTAN, 1968-69
(Rs crores)

Commodity	Value	Commodity	Value
Export to West Pakistan		*Import from West Pakistan*	
Betel nuts	0.85	Oilseeds	11.50
Spices	0.98	Raw cotton	15.78
Wood and timber	1.17	Foodgrains	14.92
Others	7.85	Tobacco	10.14
Tea	22.89	All other commodities	10.38
Jute goods	14.22	Cotton fabrics	21.72
Paper and paper board	9.10	Cotton yarn and thread	6.12
Matches	3.17	Machinery	6.64
Leather	2.96	Drugs and medicines	5.39
All other articles	16.27	Tobacco manufactures	2.22
Foreign merchandise	0.28	Metal manufactures	1.88
		Rape and mustard oil	0.75
		Rubber goods	1.45
		Paper and paper board	2.61
		Vegetable oil—non-essential	1.12
		Cement	7.02
		All other commodities	14.63
		Foreign merchandise	4.29
Total	87.12	Total	138.54

Source: The Economic Times, April 25, 1971.

in Bangladesh is a regular phenomenon. Lack of water control in these areas has prevented cultivators from using fertilisers effectively. As a result, limited advantage can be taken of the modern improved methods of cultivation by the farmers.

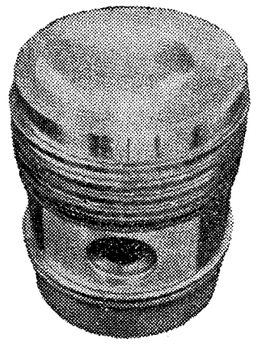
The topology of Bangladesh, with its extensive network of river systems, supports a large fleet of river crafts of wide variety. Although the powered river crafts, like motor launches and steam ships, form a small proportion of the total number at present, their number is expected to increase with the growth of the economy. The requirements of powered rivercrafts can give rise to boat and steamship building yards in the ports of the country. While the heavier engines might be imported from India and other countries, the smaller power equipment for the boats can be manufactured within the country. Country boats naturally predominate among the vessels plying over the vast waterways which remain the major communication system in large parts of Bangladesh. When these are equipped with motors they can serve as commercial vessels for carrying goods to distant markets at economic rates. They can be as effective as the three-wheeler tempos in carrying agricultural products in Indian cities.

The need for concerted action by the two States has been felt on the navigability of Bhaghirathi-Hooghly river in West Bengal. This stretch of the river at one time remained connected with the river Ganga throughout the year. The Ganga has now changed its course and flows mainly through the Padma in Bangladesh. The Bhagirathi-Hooghly now receives its flow from the Ganga only during the monsoon period. For other parts of the year, it turns into a tidal creek, fed only by the sea of Bay of Bengal. The sea deposits enormous amount of sand in the river channel which are not flushed by the natural flow of the Ganga during the monsoons. This has resulted in gradual deterioration of the navigability for ships at Calcutta port. Larger ships find it increasingly difficult to approach Calcutta port.

Again, the whole complex of inland river transportation based on the Bhagirathi-Hooghly river has suffered severely. There was a viable river transport system, operating between Patna or even beyond Calcutta and Gauhati through Bangladesh, till as late as 1965. The river traffic through East Pakistan permitted easy exchange of goods between the two States. Indo-Pak hostilities put an end to the traffic altogether. It crippled the organised transport system over the Bhagirathi-Hooghly. The silting up of the river has accelerated in recent years. The riverine link between West Bengal and Northern India has become inoperative excepting for a part of the year. The scheme for revitalising the river by diverting water from the Ganga into it through the erection of a barrage at Farakka has been conceived and work is already in progress. The management of waters of the Ganga has been a matter of concern for both States. With the new political set up it should be possible to work out an integrated plan for the control of the rivers in the Eastern region of the Indian subcontinent in the interests of both India and Bangladesh.

Another area where co-operation between the two States can yield benefits to Bangladesh in particular, relates to tourist trade. Natural beauties of Bangladesh are legendary. The liberation movement of Bangladesh has aroused keen interest among Indians about the country. The desire to visit Bangladesh is widely shared among Indians too. With proper planning, tourism too could develop as an important trade item for Bangladesh.

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ECONOMIC AND POLITICAL WEEKLY

A Sameeksha Trust Publication Rs 1.25 Vol VII No 13 March 25, 1972

1-APR1972 INDUSTRIES DEPARTMENT

NO TAXES, NO EVASION

TOWARDS ANOTHER TASHKENT?

NO-COST FUNDS FOR PUBLIC SECTOR

COMPUTERS: GLIMMERINGS OF A POLICY

POMPIDOU'S REFERENDUM

REVIEW OF AGRICULTURE

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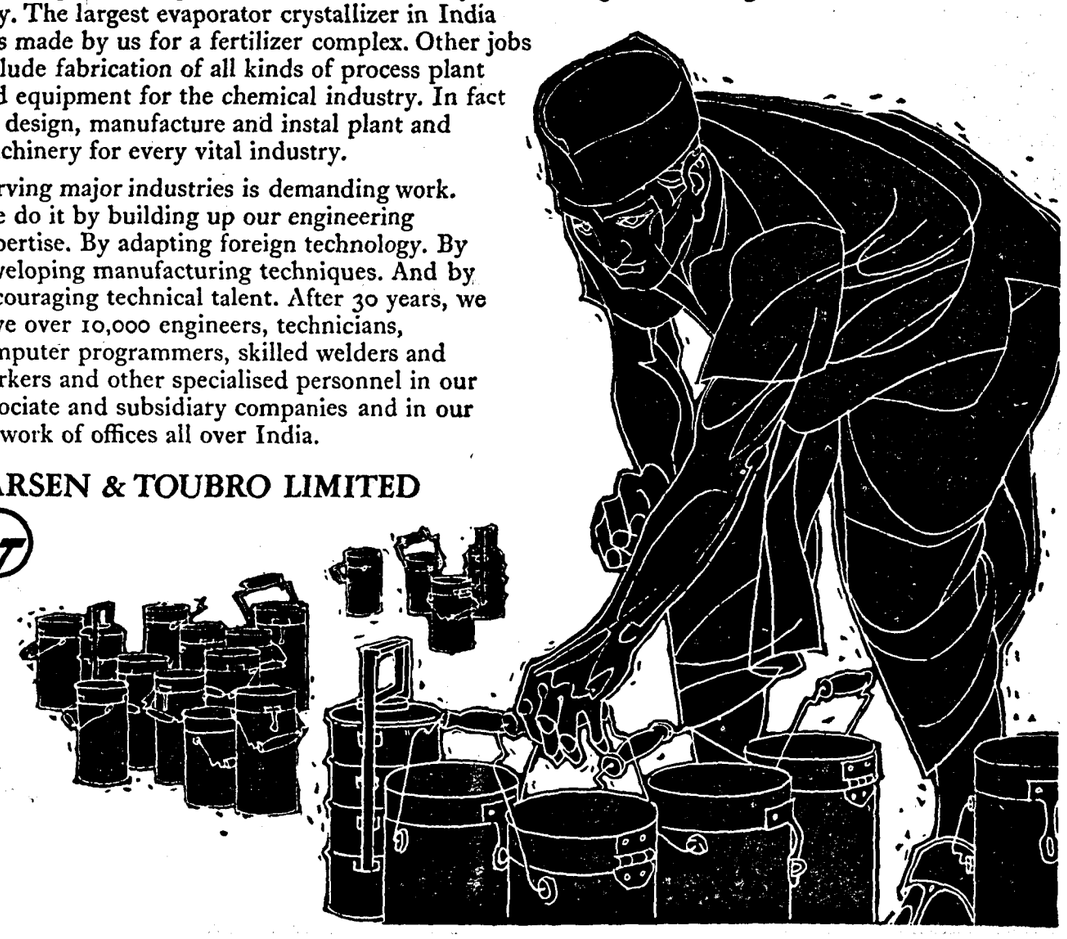
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ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

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Towards a Tashkent?

SLOWLY but steadily, the subcontinent appears to be moving towards a tripartite conference to sort out the problems left over by the December war. Relations between India and Bangladesh remain cordial and both governments appear to be keen to strengthen them, as the Treaty of Peace, Friendship and Co-operation indicates. Bhutto also has succeeded in conveying to India his desire to have a different pattern of relationship with New Delhi and whatever might have been the mental resistance in the Foreign Office to a dialogue with Pakistan, it can be assumed that the Pakistani President's visit to Moscow has helped to break it.

The Government of India has not been in the habit of attributing motives to the Soviet Union in matters regarding the subcontinent and, even when Moscow supplied arms to Pakistan, there were many in this country who had regarded it as a basically sympathetic act. A similar move on the part of another Great Power would have been universally condemned. This special position that the Soviet Union has in India makes it far more capable of acting as the paternalistic peace-maker than any other power.

It is Pakistan which has always been the major obstacle to a much larger Soviet role in the entire subcontinent — a fact which Peking and Washington took note of. What Bhutto's Moscow visit indicates is that he has now decided, as President Ayub did in December 1965, to make the Soviet Union take a hand in bringing about a peace settlement after the war. It is easy to rush to the conclusion that since America and China, were so much against the Soviet Union all these months, this act of Bhutto must be entirely his own. There is no doubt that in many Indian analyses of the situation, the autonomy of Pakistan was underestimated and Bhutto is precisely the type of political leader who knows how best to assert his autonomy. Also, his survival itself depends upon assertion of the policy of coming to terms with India. So even if China and America were trying to prevent him from doing so, he would not commit political suicide by acting according to their advice.

But it is not impossible that neither Peking nor Washington would at this time take a very dim view of such a Pakistani policy. Both of them are aware of the deep crisis in which Islamabad finds itself. They must be equally aware of the fact that neither singly nor jointly can they make much difference to Pakistan's capacity to get the best possible terms for a peace settlement from India. It is the Soviet Union, with its enormous influence over New Delhi, which could make India adopt a more conciliatory posture towards Pakistan. Even if their long-term model for the subcontinent is one of building up checks and balances within this region, they cannot overlook the simple fact that Pakistan, as it is today, is just not the right instrument to be used for any such purpose. If with Moscow's blessings Pakistan can stabilise itself by acquiring some breathing space, other long-term ideas and projects may then be implemented.

The fact that one of the two Indian correspondents who visited Pakistan to interview Bhutto was given all facilities by Peking has not been fully taken note of in India. In 1966 also many Indians were not fully aware of the pressures exerted by a 'friendly' power to persuade Ayub to go to Tashkent. In brief, the inexorable push towards another Tashkent is already there and it may not even be correct to suggest that this will be a slap on the face of China and America.

For obvious reasons, the Soviet initiative on this occasion may be different in form from what it was in 1966. A tripartite meeting need not necessarily take place outside the subcontinent and the Soviet Prime Minister need not necessarily be present. Repetition of old practices does not always yield equal dividends. But that the Soviet Union is keen to play a role is obvious from what Prime Minister Kosygin has already said. India's formal position that it would prefer direct negotiation to third party mediation need not be altered to fit into this scheme of things. The Bhutto-Swaran Singh talks of 1962-63 were obviously direct negotiations in form but not in reality; the USA and UK had played major roles in arranging them. Moreover, the Soviet Union no longer needs to prove that it is ready to lend a helping hand to the countries of the subcontinent in sorting out their differences. As compared to 1966, its position in the subcontinent is so much better today that no symbolic event like Tashkent is needed to prop up its role.

What it, however, needs today, as much as it did in 1966, is the tacit concurrence of America and China to its attempt to restore some sort of peace in this region. It would be far too simple a view of the nature of the Great Power conflict to assume that what is sauce for the Soviet goose cannot also be sauce for the American gander. India did very well in antici-

pating that there could be no Great Power agreement on the question of the crisis in Bangladesh, particularly after the Indo-Soviet treaty. But it may be necessary for it to be aware of the circumstances and conditions under which such agreements can still be arrived at. How best to protect and promote India's interests in the event of such an agreement is another matter. But those who have been talking of India's emergence as the dominant power in South Asia may well have exaggerated our capacities.

Budget

Half-way to a Wider Tax Base?

EVER since the Administrative Reforms Commission frowned on the practice of reforming the tax-laws through Finance Bills, the government has been presenting the Parliament with a supplementary Bill to amend the Income-tax and allied Acts almost every year. One such, "to rationalise and simplify the tax structure", was introduced in 1969 and enacted in the following year. Another, launched in 1971, is now before a Select Committee. Yet another has been promised "for restructuring the Income-tax Act and the Wealth Tax Act" in the light of the report of the Wanchoo Committee. As was to be expected, this practice has met with satisfaction all round. For, apart from providing tax advocates, accountants and august bodies like Chambers of Commerce ample chance to vent their views directly before the legislators, it enables the Parliament through its select group to deliberate on the merits of the changes proposed in no great hurry and also to come into live contact with tax-payers. (The Committee that considered the 1969 Bill took pains to go to the far corners of the country, including Kashmir, for the purpose.) Limelight, however, continues to be stolen by the Finance Bills. For one thing, lacking the patience to follow the convoluted course of an ordinary Bill, and, perhaps, by long conditioning, public gaze is still rivetted on the Bill that accompanies the Budget. Besides, measures that make an immediately perceptible impact on the tax-payer's pocket are projected invariably, and quite appropriately, through the Finance Bill.

The Finance Bill of 1972 is, however, notable not so much for its "bite"—the total yield of all the changes proposed in direct taxation will not exceed, in the government's estimate, Rs 24 crores in a year—but the advance it marks in official thinking on the spread of taxable income. By seeking to include the "winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or bettings of any form", the Bill gives notice of the Exchequer's desire to do away with the self-imposed shackles that crippled the ambit of income-tax in this country since almost its inception.

Not that Indian income-tax is altogether averse to treating casual gains of any kind as taxable. Receipts arising from business or profession or by way of an employer's remuneration and, for quite some time now, capital gains, even if casual and non-recurring are brought to taxation. But these exceptions came to qualify the general exemption more to prevent avoidance by camouflaging gains which are plainly income as occasional bounties than out of any conviction about the taxability of non-recurring credit items on a tax payer's balance-sheet. The proposition that "exemption from tax of such receipts is not in keeping with the principle of taxing equally persons with equal capacity to pay" has found explicit acceptance in an official Memorandum for the first time.

Of course, the case for taxing receipts which rarely occur is not as straight as that. Accretion to ability to pay resulting from an occasional stroke of good luck cannot obviously rank equally with that flowing from income received regularly. It is their windfall character that render casual receipts so eminently suitable for the tax-man's axe. Perhaps unable to bring themselves to place all casual gains in one category the policy-makers have proposed to tax some of them (e g, lottery earnings) somewhat lightly like capital gains while classifying the remaining ones as ordinary income, subject to a deduction of Rs 1,000. Gains from business and profession, even though casual, will however continue to be taxed as ordinary income.

There may be logic in this approach. Categorisation of various kinds of casual gains may also have stemmed from apprehensions about wild claims for offset of 'casual losses'. It may, however, be worth pondering whether such multiplicity of types of casual gains is at all justified or necessary and whether it will not hinder instead of helping the desired extension of the tax net in this direction.

It would perhaps have simplified matters a great deal if the clause exempting casual income was simply removed from the statute book. The long standing exemption clause may have obscured the fact that casual receipts are taxable by themselves unless specifically excluded from income. When the government has made up its mind to tax these receipts, an attempt could have been made to sweep away the cobwebs that have accumulated over the years (which alone can explain why capital gains are regarded by the law makers as casual income), at least to prepare the ground for a rational restructuring of the tax system.

Computers

Glimmerings of a Policy

A Correspondent writes:

THE usually sedate sessions of the annual Convention of the Computer Society of India had a controversial start last week when M G K Menon, Chairman of the Electronics Commission, after inaugurating the Convention in Bombay with a general description of the Commission's activities, went on to announce that government did not intend to let foreign manufacturers (meaning, specifically, IBM) treat the country as a dumping ground for second-hand computers. He called on users to make imaginative use of computing facilities and on commercial users to shift the emphasis from routine data-processing to applications involving operations research, linear programming, etc. In what was probably the first categorical statement from the government on the question, he said that use of computers involving displacement of labour was not going to be encouraged. He told manufacturers that government would be putting a great deal of stress on indigenous sources of supply and that computer usage should be re-oriented to employ what was locally available.

The commercial sector found a mouthpiece in S Rangnekar. Rangnekar passionately denounced the "rule of scientists in fields where they have no experience". His claim that even such applications as payroll processing could be the basis for that wonder child of 'modern management', Management Information Systems (MIS), was unexceptionable—though its implication that payroll data-bases are in fact being used for MIS purposes in the country is far from the truth. Nervous EDP managers cheered lustily at the attack on government policy and the woolly statements about cost-benefit. What cost and whose benefit? Moreover, Menon's remarks were hardly radical, and the violent reaction they provoked therefore appear surprising.

The reasons for the furore appear to be two. First, IBM is now in a shaky position after having been practically told by the government to pack up and leave if it does not indigenise both its plans and its manufacture. Consequently it did a great deal of lobbying to persuade commercial users that their interests would suffer irreparably if IBM left. During the Convention it even took 50 delegates on a tour of its 'manufacturing' plant with lunch thrown in. The public relations work evidently paid off. The commercial sector responded by raising questions of 'public debate', 'high-handedness of officials' and, predictably, 'freedom of society'.

The second reason for the furore is that commercial EDP managers, under pressure from an unenlightened top management and from vociferous workers' unions, are forced into the frustrating situation where they would like to shout but are afraid to whisper. As a study by the Indian Institute of Management, Ahmedabad, revealed two years ago, commercial organisations are usually quite unwilling to reveal the 'cost-benefit', if any, of computerisation, and much of this is out of fear of the unions. Government now wants to know what these costs and benefits are, before issuing licences for computers; and EDP managers, who have comfortably talked of management by exception, MIS, etc, now find they have to justify claims with facts.

However, government itself has a long way to go before its computer policy may be said to have taken shape. It must explain, for example, what has happened to the Venkatraman Committee on automation. It must lay down clear guidelines for the commercial use of computers, and any decision-making here will require the active participation of the unions. And, apart from permitting, it must go far ahead and stimulate, the use of computers where such use can successfully exploit the powerful capabilities of the machine. It will have made a beginning in shaping policy if it can hold its own when lobbying for IBM is stepped up over the next few months.

Public Enterprises

More No-Cost Capital

DESPITE all the talk of improving the working of public sector enterprises, it does not appear that much progress has been made in that direction as will be clear from the following assessment contained in the Economic Survey for 1971-72: "According to the Mid-Term Appraisal of the Fourth Plan, contributions from government enterprises are now expected to yield only Rs 1,171 crores as against Rs 2,029 crores stipulated in the Plan. The public enterprises, besides being victims of the phenomenon of rising costs, have also been afflicted by industrial unrest, breakdowns and problems of management, both administrative and technical. A substantial part of the Plan outlay is locked up in these undertakings; the returns in some cases have not been sufficient even to cover adequately the requirements of depreciation." But while very little may have been done to improve the working of public enterprises, the government appears to have recently taken some decisions which will provide window-dressing to the financial performance of these units, as also the Railways.

To take the Railways first. The Railway Convention Committee constituted by Parliament has rushed through with an interim report whose recommendations have the effect of providing the Railways with a windfall of about Rs 22 crores each in 1971-72 and 1972-73 — all of it at the expense of General Revenues. As a result, in their revised estimates for 1971-72 the Railways have been able to show a surplus of Rs 9 crores against the deficit of Rs 7 crores anticipated in the Railway Budget for the year.

Among the public sector enterprises, the major beneficiary of the financial window-dressing is Bokaro Steel. First, the government has decided to waive interest charges on loans to Bokaro till 1978. Second, Bokaro's authorised capital has been raised from Rs 500 crores to Rs 600 crores and the government has chipped in with an additional capital contribution of Rs 100 crores in 1971-72 to make the increased capital of Rs 600 crores fully paid-up. As a result, Bokaro was enabled to make do with loans of Rs 53 crores as against the Rs 80 crores provided in the 1971-72 Budget. Since dividend on the government's equity need be paid only when — and to the extent that — the enterprise is able to, whereas interest charges on government loans accumulate, the combined result of the two decisions is to reduce the cost of capital to Bokaro — at the expense, once again, of General Revenues. But considering Bokaro's colossal capital cost per tonne of steel capacity — the result of high initial project cost inflated by the long delays in the execution of the project — how far even such financial window-dressing will help is a moot point.

The attempt to 'improve' the financial performance of other public sector undertakings also takes the form of scaling down their interest liability by converting a part of their loan capital — itself given out of government revenues at highly concessional rates — into equity. Thus the Explanatory Memorandum to the Budget for 1972-73 shows the government's investment in government companies and corporations to have been Rs 468 crores in 1971-72 against the Budget estimate of Rs 233 crores. The additional investment in Bokaro, referred to above, accounts for Rs 100 crores out of the increase of Rs 235 crores. The rest is mostly accounted for by conversion of existing loans of a number of other public sector enterprises into equity. The details are as follows:

Undertaking	Amount of Loan Converted into Equity (Rs crores)
Heavy Engineering Corporation	59.50
Hindustan Steel	32.30
Bharat Heavy Electricals	15.00
Mysore Steel	11.23
ONGC	5.75
Hindustan Machine Tools	3.47
Bharat Heavy Plates and Vessels	1.18

Out of the above list, in the case of Mysore Steel the purpose of the conversion of loan into equity is ostensibly to raise the Centre's share in the company's capital to 40 per cent and in the case of ONGC it is to finance the initial expenditure on offshore exploration through capital contribution by the government instead of loans.

For the rest, the justification advanced for conversion of loans into equity is that the amounts in question represent the whole or a part of the expenditure of the companies in question on 'townships'. The reasoning evidently is that the creation of 'non-productive' assets such as townships deserve to be financed out of 'no-cost' capital. At a very rough estimate, the effect of the financial manipulation implicit in all this is an annual bonanza of some 7-8 crores for the above mentioned compa-

nies at the expense of the Exchequer.

It is only in the strange financial world of our public sector companies, where payment of dividend on equity capital is the exception rather than the rule, that equity appears as low-cost or even no-cost capital compared to loans. Clearly, in any comparison of the surpluses available from public sector enterprises to General Revenues in the coming years with earlier estimates of such surpluses, allowance would have to be made for the interest receipts forgone by the Exchequer through the conversion of loans into equity.

However, the more important issue involved here is that of the cost of investment funds to the public enterprises. The cost of such funds to these enterprises is already low — thanks to the low rates of interest charged on government loans to them. What is now proposed to be done — on the specious plea of the heavy burden on these enterprises of investment in 'social' facilities — is to further reduce the cost of funds to them. Surely, this is a matter which deserves some discussion instead of being tucked away inconspicuously in a corner of the Explanatory Memorandum to the Budget. One need not go to the extremes of advocating the use of the price-mechanism for the allocation of investible funds to suggest that the provision of resources to public enterprises at very low cost is unlikely to make them more anxious to put these resources to the most effective use. For instance, it is less likely to make them lose sleep over delays in the execution of projects or worry about idle capacity, excessive inventories, and the like. Worse, since the government's policy appears to be to provide funds cheapest for the so-called 'social overheads', the public sector managements will be least inclined to economise in the use of resources in these areas. That the fear is not fanciful should be obvious to anyone who has scrutinised the size of investments by public sector companies in the building and maintenance of townships or seen for himself the conditions of a good life which public sector managements are careful to create for themselves and their underlings long before the productive parts of the projects in question are anywhere near completion.

Assam

Dwindling Opposition

A Correspondent writes:

THE Congress has bagged 95 of the 114 seats in the Assam Assembly. Of the remaining, the Socialists captured 4, the CPI 3, the PDP 3, the PTC 1, the UARP 1, Swatantra 1, the RCPI 1, and Independents 5.

It was an easy win for the Congress. The Congress electoral strategy rested on the appeal to the Muslims (who overwhelmingly voted for it), the scheduled castes, and the women. In fact, the Congress seems to have recovered whatever minority votes they had lost in the 1967 elections. The garden labourers, under the leadership of the INTUC, captured all the 27 labour seats, except two. There are 19 constituencies in Assam which are dominated by Muslim voters. In 1967, 9 of these had returned Independent candidates; this time all, except one, went to the Congress. In 16 other constituencies, Muslim voters who are apt to vote *en bloc* played a crucial role. Almost all these seats went to the Congress this time. There are also 14 scheduled tribe and 6 scheduled caste seats in the Assembly. In 1967, the opposition had captured 6 scheduled tribe and 3 scheduled caste seats. This time, it lost 3 of the 6 scheduled tribe seats.

Of the four categories of seats, *viz*, Muslim, garden labour, scheduled tribe, and scheduled caste, the Congress captured 75. Out of the 33 general seats, where the opposition put up a strong fight, it could wrest 13. The Socialists lost the prized Koliabar seat, but retained the Golaghat seat. The Communists lost their Nowgong seat. In the 1967 elections, the opposition had bagged 43 seats. However many of the victors later defected. This time it managed to retain only 10 of the old seats and added 9 from the general seats.

The initial Opposition hope that the Congress split would help it to bag some more seats than in 1967 was thus sadly belied—thanks mainly to the overwhelming support the Congress received from the Muslim voters. In 1967 the Muslims were dissatisfied with Congress policy towards the Pakistani infiltrators. This time, the emergence of Bangladesh together with the return to power of the trusted community leaders of the state, following the leadership change, effaced much of the antipathy towards the Congress.

In many constituencies, the state machinery and money were freely used, especially during the three days preceding the poll. There have been complaints too of communal and caste appeals, of tampering with voters' lists and ballot boxes, of intimidation of rural electorate, for instance, through warnings that the ballot papers could be inspected later to discover who voted for whom. Also Indira Gandhi and Bangladesh figured prominently in the Congress propaganda. In the rural areas, the middle men, represented by priests, mullahs, tribal chiefs, and powerful traders, control the bulk of votes. The Congress election machinery is heavily oriented towards this class. As an MLA, Gaurisankar Bhattacharyya, the leader of the PDA group, alleged, "Under the cover of popular and democratic slogans, the Congress party had mobilised all reactionary forces and vested interests." Another opposition leader demanded a high-powered inquiry in to the behaviour of one of the party's top campaigners, Moinul Haque Chaudhury.

The Opposition rout was nevertheless largely of its own making. The opposition parties' failure to unite in the face of the massive confrontation of the Congress and to attempt to use the occasion to politically educate the people on the issues on which the Congress was so carefully avoiding discussion, was at the root of their defeat. If the Congress exploited caste and communal affiliations, it was for the Opposition to expose this.

The Opposition should also have sought to make a dent on the Muslim and tea garden voters, among whom once they gather strength *via* political education they could aspire to emerge as a viable force. Nor were the scheduled tribe votes this time solidly behind the Congress; the victory of the PTC chief, Charan Narzary, in Korakhar West constituency was significant inasmuch as the party has been long demanding a Bodo autonomous region within the State of Assam. Similarly, the significant win of the Ujani Asom Rajya Parishad candidate in Sonari constituency, is a pointer in the same direction, for the party has been long advocating the establishment of an Upper Assam state. Two of the ministers of the Sinha cabinet, Biswadev Sharma and Ranendra Nath Basumatary, also suffered significant defeats at the hands of Opposition candidates. In the general seats, the Opposition votes exceeded those of Congress candidates. But the Opposition parties need to evolve a common strategy against the Congress. Unless they rise above narrow pragmatism and conventional political thinking, there is little hope of their recovering from their defeat.

On Razor's Edge

A N Oza writes:

THAT in yet another case the Monopolies Commission is divided in its views is no longer very exciting news. But for once the majority and the minority appear to have reversed their positions. The case in question is the application of H L Malhotra's Vidyut Metallics for expansion of its capacity from 90 mn razor blades per annum to 250 mn.

The structure of the razor blades industry was distorted by *ad hoc* licensing decisions in the initial stages of its development. Between 1961 and 1966 the industry was put on the 'banned' list. During 1961-64 the ban was applicable to both new units and substantial expansion, whereas between 1964 and 1966 the ban applied only to the setting up of new units. It was mainly during the latter period that the existing dominant producer, H L Malhotra, came to acquire a predominant share of the licensed capacity in the industry. He was allowed repeated substantial expansions even as 7 applications from new producers were rejected. As a result, Malhotra is today estimated to control 88 per cent of the capacity in the industry through his three plants in Bombay, Hyderabad and Howrah. There are only two other manufacturing units, belonging to Dahanukars and Sharpedge, an Escorts-Hindustan Lever enterprise. There are other companies which market their own brands of blades but these are made by one or the other of the above three manufacturers—for instance, Union Carbide who get their brand of blades made by Dahanukars.

The curious thing is that Malhotra has applied for expansion of capacity even though fully one-half of his existing capacity of about 1,800 mn blades, out of the industry's total capacity of about 2,000 mn blades, remains unutilised. This is justified by Malhotra on the ground that certain basic factors prevent him from using much of the installed capacity of his Howrah and Hyderabad plants. In Howrah persistent labour trouble is held responsible for underutilisation of capacity whereas in Hyderabad it is the inability to develop a sufficiently skilled labour force. At the same time, the Bombay plant, which has been working well, has a capacity of only 90 mn blades which is considered too small for efficiency. Hence the plea for its expansion to 250 mn blades. To buttress his claim to be allowed to expand capacity, Malhotra has offered to export 60 per cent of the additional output of 160 mn blades.

The majority of the Monopolies Commission seems, according to reports, to have rejected the proposal on the grounds that (i) Malhotra is already a predominant producer controlling 88 per cent of the industry's capacity, so that any further expansion of his capacity would increase his monopoly power and restrict entry of new firms through pre-emption of capacity; (ii) Malhotra's export commitment cannot be taken seriously considering that in the past his exports have been small; (iii) rejection of the proposal will help to correct the mischief done by the preference shown to Malhotra in licensing decisions earlier; and (iv) expansion of Malhotra's Bombay plant is not justified in view of the large unutilised capacity at his Hyderabad and Howrah plants.

The minority view appears to accept Malhotra's contention that the idle capacity at his Howrah and Hyderabad plants is incapable of being activated in the short run. At the same time the uneconomic size of his Bombay plant prevents him from fully exploiting the considerable technical innovations made by him—in fabrication of indigenous equipment and improvement of manufacturing processes—, especially for stepping up exports. Malhotra has sought to lend greater credibility to his proposed export commitment by suggesting a collaboration with Wilkinson Sword of UK. In order to mitigate the possible consequences of Malhotra enhancing his monopoly power as a result of the proposed expansion, the minority in the Monopolies Commission has recommended that (i) he should be required to surrender about one-third of the capacity of his Howrah plant; and (ii) Panama Private, which owns Vidyut Metallics, should be converted into a public limited company and compelled to accept equity capital from the financial institutions.

In an assessment of the opposite views, certain points need careful consideration. In the first place, there is no doubt that in the past the government's licensing decisions in regard to the razor blades industry have been indefensible insofar as they (i) permitted expansion far in excess of the likely demand in the near future; and (ii) allowed a single manufacturer to corner an overwhelming share of the expanded capacity. This smacks of pre-emption of capacity with the blessings of the government and, on the face of it, the purpose of licensing policy for this industry now ought to be to rectify this situation.

In this context, it is not very clear what is meant by asking Malhotra to surrender or offload one-third of the capacity of his Howrah plant. Surely, it is not being suggested that a part of the capacity be physically hived off to be handed over to some other manufacturer? What is perhaps intended is that for purposes of record the plant's capacity be henceforth deemed to be 1,000 mn instead of 1,500 mn blades. Insofar as production at the plant is far below 1,000 mn blades at present and is likely to remain so for quite some time, this statistical change is of no practical significance and should be considered irrelevant for deciding whether or not to allow expansion of the Bombay plant. Similarly, while it is desirable that Vidyut Metallics should be persuaded to go public, it is debatable whether this will significantly dilute Malhotra's control and affect the company's capacity to misuse its overwhelmingly dominant position in the industry which would be further strengthened if the expansion asked for is allowed.

However, the aspect of the proposal that needs the most careful consideration is the commitment to export 60 per cent of the additional output and the prospective collaboration agreement with Wilkinson Sword lurking in the background. Exports and export commitments have by now become standard devices for industrialists to extract a variety of concessions, whether in respect of expansion or foreign collaboration. What is ignored in the process is whether a number of commodities which are thus pushed into the export market are at all worth the trouble of exporting. What, for instance, will be the *net* foreign exchange earnings out of export of blades? It is known that such exports as have been made so far by Malhotra have been made at very low prices so that net exchange earnings (after allowing for import of steel, etc) have been marginal, if not actually negative. Clearly, a measure of selectivity is

needed in picking items for export.

The proposed collaboration with Wilkinson Sword is also fraught with undesirable possibilities Ostensibly the collaboration is being sought in the interest of expanding exports, but if the company is allowed use of the collaborator's well known brand names within the country Malhotra's monopoly position would be immeasurably strengthened. Worse, it is bound to provoke demands by other blade manufacturers, who may similarly agree to export commitments for the purpose, that they be permitted collaboration with makers of other internationally known brands such as Gillette and 7 O'Clock. Thus the floodgates may be opened to totally unjustifiable and wasteful proliferation of collaboration arrangements and foreign brand names in blades as was allowed to happen in such diverse industries as cosmetics, refrigerators and radios.

Indo-Afghan Trade

Not Diversified Enough

THE new trade agreement signed by India and Afghanistan lays stress on expansion and diversification of the trade between the two countries. The need for diversification of trade has been stressed in all the past agreements, but it has remained an elusive goal. And, it seems that it will remain so for some time to come.

Tea continues to be the mainstay of Afghanistan's imports from India. The value of India's export of tea to Afghanistan rose to Rs 4.54 crores in 1966-67 from Rs 1.79 crores in 1965-66, and rose further to Rs 8.26 crores in 1970-71. As against this, Afghanistan's import of machinery and transport equipment from India was worth Rs 39 lakhs in 1970-71 — marking an increase of about Rs 20 lakhs over 1966-67. Although there is a good demand in Afghanistan for items like machine-tools, cables, electric motors, pumps, trucks, automobile ancillaries and equipment, electric lamps, scientific instruments, etc, imports of these from India are negligible. Even in the latest trade agreement, only medicine and surgical instruments have been added towards trade diversification.

One handicap for India, in persuading Afghanistan to rely on it for many of its machinery and industrial goods and raw materials requirements, is that the latter receives these from Western and Communist countries under various credit and assistance programmes. Although India has been extending both short-term and long-term credits to Afghanistan, these have made no contribution to changing the trade pattern between the two countries since they are mostly used to finance Afghanistan's purchase of traditional goods from India. Thus, in the absence of large-scale credit, even if Indian industrial goods and machinery are impressive in terms of both quality and price, Afghanistan is too heavily burdened with the problem of finding foreign exchange to increase its offtake of non-traditional goods from India.

Nevertheless, the scope for expanding the trade between the two countries is vast. During the past one decade, the volume of trade has increased from Rs 6 crores to Rs 24 crores. Besides tea, other major imports from India are textiles, handloom fabrics, silk, jute goods, tobacco, confectionery, and vegetable oils; but Afghanistan also imports some of these items from the Western countries and Japan, and India could aim to attract that demand to itself. At the same time, India's imports of dry fruits and medicinal herbs, which are the major items of import by India from Afghanistan, may be increased. Today dry fruits worth about Rs 8 crores are imported every year from Afghanistan. This could be increased, if efforts are made to break the concentration of Indo-Afghanistan trade in the hands of a few who earn high profit at the expense of the consumers.

Unfortunately, the new trade agreement has only diagnosed this malady but has not prescribed any remedy for it. India's suggestion that the import of fruits be channelled through a public sector agency has not been favoured by Afghanistan which fears that, if the Afghan exporters have to deal with only a single agency, their bargaining strength might be reduced. The alternative suggestion, that more than the present 25 or so parties in India should be given licence to import, has not been accepted for implementation. Yet, if the intention is to expand trade, a solution here cannot be postponed too long.

Meanwhile, for lasting and purposeful Indo-Afghanistan economic relations, the two countries have, under the new trade agreement, decided to set up under joint venture a plant in Afghanistan to produce extracts from medicinal herbs and plants growing in Afghanistan. India will make use of these extracts in its pharmaceutical industry. There are several other areas also in which India can develop close economic relations with Afghanistan. Abundance of fruits and vegetables afford scope for the refrigeration industry in Afghanistan. Afghanistan also has huge mineral and hydel resources, which have not yet been fully exploited. Its iron ore deposits are one of the largest in the world and are of high quality with an average concentration of around 70 per cent. India can collaborate with Afghanistan in a number of projects, at the same time giving fillip to its own electrical and mining industries. Afghanistan would also be a good outlet for India's coal and cement, both of which items Afghanistan needs. Another important field in which economic relations between the two countries could be promoted is the building of railways, which Afghanistan at present lacks.

THE BUDGET

The Expenditure Pattern

Contributed

BESIDES being a resource-gathering effort, the budget has a far-reaching impact on the economy through its expenditure pattern. The large volume of financial outlays and transfers (for example, interest payments to and by the Central government) tend to submerge the "real" significance of the Central Budget. It is necessary, therefore, that the real transactions of the government arising out of the 1972-73 Budget are examined.

On the revenue account, the transactions of the government can be divided under three heads: defence, civil administration, and developmental outlay. The expenditure under these three heads is as given below:

	1971-72 (Revised)	1972-73 (Budget)
	(Rs crores)	
Defence	1,248	1,219
Civil administration	768	780
Developmental*	449	516
Total	2,465	2,514

* Includes (i) Social and Developmental Services, (ii) Multipurpose River Schemes, (iii) Public Works and (iv) Transport and Communications.

There are two notable features of the outlay on revenue account. Firstly, the overall increase in outlay is very small — about 2 per cent. Secondly, most of the increase is accounted for by developmental items. The small rise in overall outlay partly reflects the fact that a large part of governmental outlay is on salaries. Moreover, much of the rise in outlay took place in the fiscal year 1971-72 (between the Budget and the Revised Estimates). What appears to have happened is that a large part of the increase in 1971-72, no longer needed in 1972-73, has been transformed into developmental expenditure, mostly under the item 'Social and Developmental Services'.

Disbursements on capital account are actually expected to decline in 1972-73, as shown below:

	1971-72 (Revised)	1972-73 (Budget)
	(Rs crores)	
Civil expenditure	755	420
Developmental	705	525
Other	50	(—) 105
Post and telegraphs	24	53
Railways	152	159
Defence	163	190
Loans and advances to government companies	387	481
Total	1,480	1,302

The figures again show the relative stability of overall expenditure on capital account (allowing for the negative figure for miscellaneous civil expenditure). The only item which shows a large increase is loans and advances to government companies which is offset by the lower investment in them under 'Social and Developmental Services'.

While the physical details of the proposed outlay on capital account are not given, some aspects of this outlay deserve notice. The disbursement to financial institutions is to increase from Rs 85 crores (revised) in 1971-72 to Rs 117 crores in 1972-73. Of this increase of Rs 32 crores, shipping (SDFC) accounts for Rs 17 crores and National Co-operative Development Corporation Rs 3.50 crores. No allocation is made for IDBI which only recently went to the market to raise Rs 11.50 crores.

The aggregate disbursement to public sector undertakings is actually expected to decline from Rs 788 crores (revised) in 1971-72 to Rs 611 crores in 1972-73. The allocation to units under the Defence Ministry has been raised from Rs 10 crores to Rs 19 crores the main beneficiaries being Hindustan Aeronautics, Bharat Electronics and Bharat Earth Movers.

The disbursement to undertakings under the Agriculture Ministry is to come down from Rs 60 crores to Rs 47 crores; more than the whole fall is accounted for by the Food Corporation (from Rs 62 crores to Rs 36 crores). The FCI's losses on current operations are taken care of by the allocation of Rs 100 crores in the Budget for 1971-72 (against Rs 50 crores in 1971-72), and the expected increase in its stock holdings is presumed to be financed by banks.

Undertakings under the Industries Ministry have taken a cut in capital disbursement of Rs 10 crores — from Rs 65 crores to Rs 55 crores. The allocation to Bharat Heavy Electricals has been cut from Rs 26.37 crores to Rs 6.43 crores. On the other hand, the scooter project gets an allocation of Rs 2.13 crores and Richardson and Cruddas Rs 1.50 crores. The small car proposal has still to find budgetary approval.

The allocation to undertakings under the Ministry of Power and Irrigation has been increased from Rs 13 crores to Rs 18 crores, the increase being accounted for by the Rural Electrification Corporation.

Projects of the Petroleum and Chemicals Ministry get an increased allocation of Rs 120 crores in 1972-73 against Rs 104 crores in 1972-72. The main beneficiaries are Oil and Natural Gas Commission (+ Rs 3 crores), Fertiliser Corporation (+ Rs 17 crores) and Indian Petrochemicals (+ Rs 15 crores), while there have been cuts in the allocation for Indian Drugs, Hindustan Organic and Madras Fertiliser.

The allocation to the Shipping and Transport Ministry has been almost doubled, from Rs 10.43 crores to Rs 19.30 crores. Given the political change, Delhi Transport gets a larger amount for 1972-73 and at long last an allocation of Rs 10 crores has been made for the Cochin Shipyard (which should further cement the Congress-CPI alliance!).

The largest cut made is under the Steel and Mines Ministry from Rs 486 crores to Rs 306 crores. The allocation to Bokaro Steel goes down from Rs 243 crores to Rs 160 crores, reflecting the near completion of phase one of the project. Hindustan Steel's allocation goes down from Rs 55 crores to Rs 21 crores and Heavy Engineering Corporation's from Rs 76 crores to Rs 15 crores. Bharat Aluminium and Hindustan Copper get more.

All these allocations do not necessarily reflect investment; allocations to units like Bharat Heavy Electricals, Hindustan Photo Films, Heavy Engineering Corporation perhaps reflect more the losses in their operations. The three new steel plants do not seem to have got off the ground yet, as also the small car project; and the allocation to telecommunications remains meagre despite the need for a major push in this area. On the whole, the public sector units still represent more a drag on the economy than an instrument of growth.

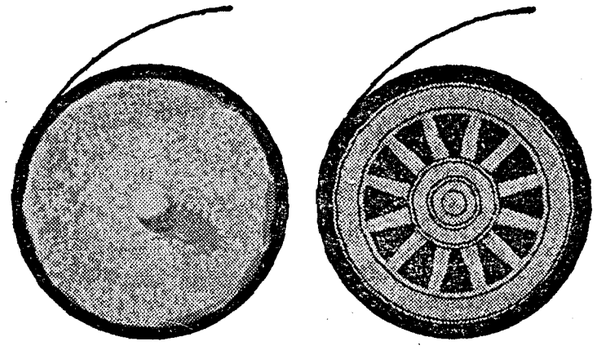
The total Plan outlay in the Central Sector is expected to rise from Rs 1,688 crores in 1971-72 (Budget) to Rs 2,062 crores in 1972-73, as follows:

	1971-72	1972-73
	(Rs crores)	
Agriculture and allied programmes	267	278
Irrigation and flood control	5	5
Power	90	126
Industry and minerals	551	654
Transport and communications	506	593
Social services	251	385
Other programmes	18	21
Total	1,688	2,062

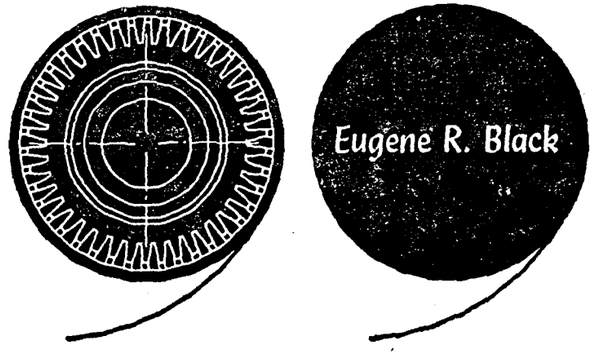
The rise of Rs 374 crores in Plan outlay is wholly accounted for by industry and minerals (+ Rs 100 crores), transport and communications (+ Rs 87 crores) and social services (+ 134 crores).

However, it is not generalised increases in outlay, but their specific direction, which will determine their impact on the economy. For example, the increase in outlay under Railways is marginal and is hardly likely to improve the prospects of the wagon-building industry. Similarly, the impact of the large increase in outlay on Power will depend upon how much of this increase will be on generation and how much on distribution of power. Given the continuing losses of the public sector units, it is difficult to be sure that the increase in outlay on industry will necessarily lead to a real increase in capital investment or the demand for goods. On the other hand, assuming that the lag in setting up the necessary administrative machinery has been made up, the large increase in outlay on Social Services might be expected to lead this year to some increase in employment.

It is apparent that the expenditure philosophy of the government has become predictable from budget to budget — an increase in Plan outlay whose real value gets diminished by under-expenditure and price rises. This is not a developmental system of using expenditure for pump-priming and accelerating the rate of investment in the economy but a budgetary system of letting expenditures continue to rise. It is hardly intended to deal with the problems the economy faces.



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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Mounting Impatience

Romesh Thapar

EVENTS are moving. Two Indian journalists fly into Pakistan (one *via* China from Hong Kong!) and get a "loaded" interview with President Bhutto on the eve of his visit to Moscow and Indira Gandhi's trip to Dacca. Premier Kosygin is seen as pushing Bhutto to Delhi for talks and his over-anxiety doesn't really disturb the Pakistanis. Bhutto appeals to his people, somewhat hysterically, to give him the right to talk to Indira Gandhi. In Bangladesh, the demand builds for the handing over of some of the leading war criminals, and it is acceptable to India.

There is a flavour of stage-management about on these inter-related developments, but it would be wrong to so assume. Maybe, a mix of sanity and rationality is descending on the subcontinent.

A Sense of Direction

Indira Gandhi, meanwhile, is in an impatient mood. Members of Parliament are noting the under-current. And it has a great deal to do with the business of feeling all-powerful. Obviously she is desperately anxious to give the country a sense of direction, something it has lacked since the build-up of the confrontation with China. The popular mood is now confident and is reflected in the extraordinary election results.

But, as with Indira Gandhi, so with the people, there is impatience to get moving. It is quite on the cards that the mood will turn angry, particularly at the level of the ruling party's leadership, if the system which underpins our federal polity doesn't respond.

Let me explain. Instinctively, Indira Gandhi has been touching upon the need for new attitudes, new approaches, new models of growth. I say instinctively, because at the level of Indian political leadership it would be idle to expect a detailed work-out of what is needed. The party has no cadres working on these problems, and the weekly journal produced from its central office, at a cost of some Rs 35,000 per month, is unreadable and unsaleable. The party and the Prime Minister must of necessity depend on the expertise of the numerous ministerial secretariats. These seem to be approaching a bankruptcy of ideas and concepts, a bankruptcy that reduces them to bewildered silence.

You can imagine the plight of the victorious leadership. It has indulged itself in all manner of electionised slogans for fear that the *status quo* would destroy the party. Anti-monopoly actions, urban property ceilings, agricultural income-tax, to name only the pillars of the socialist order that is promised, are not turning out to be the kind of revolutionary weapons which they were intended to be. Committees are being constituted, and secret cells too, in order to deepen understanding of these measures. And the picture that is emerging makes confusion worse confounded. Instinctively, the leadership knows that a quite different approach to our problems will have to be sought if we are to begin the transformation of our society in the interest of justice, equity and fair play.

A different approach? What does that mean? The Indian mind has seldom exercised itself beyond the familiar and cliche alternatives inherent in socialistic planning and the freedom of private enterprise. This is surprising considering that the world has been in the throes of fierce new debates and controversies for over a decade in the related fields of human developments. In fact, to the north, in over-populated China, a whole range of experiments have been indulged in. But we seemed to have stopped still at the level of the intellectual ferment of the thirties and forties. Today, we wallow in imitative ideologies.

Pointers Are Not Hidden

It is a situation shot through with dangers. The old socialistic panaceas don't operate in conditions of democracy. Democracy is the cement of the federal polity. Impatience builds for result-oriented policies. The existing expertise within government is as yet unable to deliver the goods. How long can we live with budgetting that tinkers with the task of resource mobilisation? How long can we survive with the kind of low performance averages which now prevail? Clearly, either we find a meaningful path to a just society, or the politician, to save his skin, will open the floodgates to the kind of policies which are based on free individual initiative. The pointers are not all that hidden for those who want to see.

The decision must be taken within the next six months. Yet, there are no signs that the indifferent ministerial team which rules from Delhi understands even the outlines of what its role has to be as the initiator of a re-shaping of policies. It is presumed at the ministerial level that a dressing up here and there of the old frame of action is enough. Not a germ of a new idea emerges which ought act as catalyst. And the most barren of all areas is the Planning Commission where ultimately a new model of growth will have to be formulated.

China-Returned Nixon

Yes, while US opinion is manipulated massively in support of a China-returned Nixon as a winner in the presidential elections, and London excites itself over the formal inauguration of a lavatory for dogs, we wait expectantly for a reshuffle of the Council of Ministers that will gear this rather tame body for solid thinking and solid action.

Asking for too much? Maybe. But remember the mounting impatience... *Tailpiece*: And, to top it off, here is a report from Jaipur which appeared in *The Hindustan Times* of March 17:

"The newly appointed Council of Ministers headed by the Chief Minister, Mr Barkatullah Khan, was crowned in the "Maharajah style" in the office of the Rajasthan Pradesh Congress Committee this morning. Mr Khan was welcomed by a girl with the *kalash* on her head.

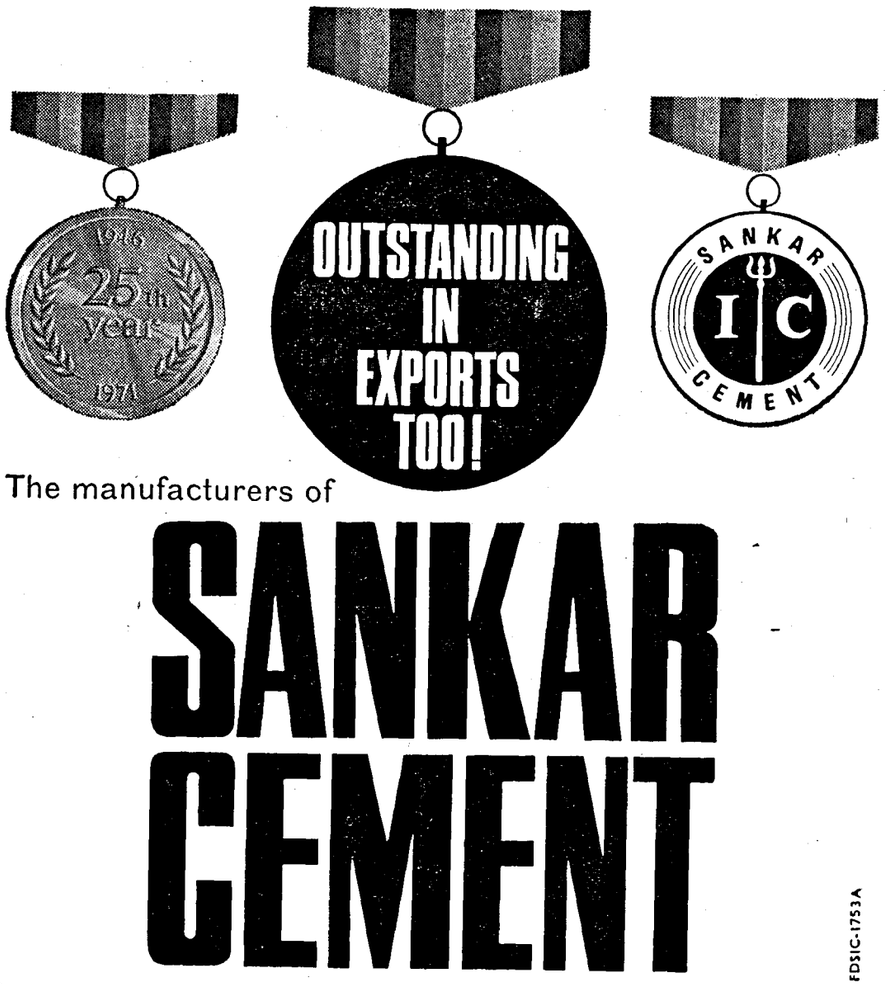
"*Invitation cards were issued to a select* gatherings to watch the ceremony, Raj Tilak. All the 10 Ministers were 'crowned' in the traditional feudal manner in which the Maharajas used to be crowned.

"An *arti* was performed before each of the Ministers by girls dressed in traditional costumes. The Chief Minister offered the girls monetary gifts. "Later, Mrs Prabha Mishra, a former Deputy Minister and a newly elected MLA, applied tilak on the forehead of the Ministers and offered them jaggery and curd.

"While the new small Ministry under Mr Khan boasts of socialism, the coronation of the Council has baffled the people in the state capital.

"Earlier the Congress symbol, the cow and calf, was brought in a procession from Panch Batti by women and children to the RPCC office."

March 20



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Expansion and Design Changes

Hansavivek

SUESSEN TEXTILE BEARINGS is stepping up dividend by 4 points to 12 per cent following fair improvement in production, sales and earnings. Production and turnover during the current year are expected to be still higher owing to the "very satisfactory" supply position of raw materials and components. Demand for some of the products like spindle inserts and top rollers continues to be strong and shortage of these products in the market is expected to last till the end of 1972, when the capacity of the company's plant would be stepped up by installation of additional machine-tools. Large-scale imports of these products were permitted by government in the last 18 months or so, but the directors hope that imports will not be necessary for a long time. Within a couple of years, all the raw materials and components are expected to be available indigenously. STB has been itself making efforts at import substitution. Last year, it commenced manufacture of latest design of top arm and expects to begin production of top weighting arms for speed frames and worsted frames during the second half of 1972. A change-over to new designs is also envisaged in the case of all other products to enhance their competitive capacity.

During 1970-71, the company made capital investment of about Rs 20 lakhs, and a similar investment is envisaged for the current year. A phased programme for investment of Rs 1 crore over the next 4 years has been finalised in consultation with the collaborators. The programme is expected to be financed largely with internal resources and only to a small extent with term loans. An agreement has also been concluded with the company's collaborators for distribution of STB's products in the overseas markets. Negotiations have been finalised with them too for representation and sale in India of the entire range of textile and non-textile products manufactured by them and their associate companies.

MADRAS RUBBER has a 'letter of intent' for setting up a new factory in Goa with a capacity of three lakh automobile tyres and tubes per annum. Construction of the factory building has commenced, and production is expected to begin in 1973. Meanwhile, it is proposed to shift the bicycle tyre plant to Arkonam, situated in a 'backward' area in Tamil Nadu. After an unbroken record of growth in sales and earnings over the past several years, the company suffered a setback during the year to September last owing to a 96-day-long strike by workmen. Dividend is, however, maintained at 12 per cent, which is still well covered by earnings. A new agreement entailing revision in wages, dearness allowance, incentive bonus and certain other benefits was signed in last November for the period upto the end of 1974-75. Although the quantum of export orders further increased, actual exports declined from Rs 58 lakhs to Rs 47 lakhs owing to loss of production. The capacity for sizes with export potential is being expanded with a view to further strengthening the base of export production. The work of effecting substantial expansion, interrupted last year owing to the prolonged strike, is to be carried out this year.

KIRLOSKAR CUMMINS experienced a sharp contraction of margins during the year to September last as evidenced by the decline in gross profit from Rs 100 lakhs to Rs 98 lakhs despite notable expansion in sales from Rs 588 lakhs to Rs 711 lakhs. But the directors have not given any reason in their report for this poor outcome. With the net profit considerably lower, equity dividend is reduced by 3 points to 5 per cent, the whole of which is exempt from tax. It is stated that the company maintained production of engines "despite numerous difficulties". Exports suffered a setback owing to difficulties in finalising the bilateral trade agreement with Egypt. Prospects of expansion in new territories, *viz*, Eastern Europe and the Far East are improving and efforts are under way to exploit these opportunities. The subsidiary, Cummins Diesel Sales and Service (India), continued to perform well.

NATIONAL PIPES AND TUBES has turned in poorer results for the year to September last owing to meagre production and low quality. Output at 758 tonnes was 390 tonnes less than last year and was only one-fifth of the installed capacity. Besides, there had been large-scale rejections of finished goods by customers as they were not in accordance with specifications or standards. The directors say that continuous efforts to bring about improvement have not been successful so far, but they hope that the situation would improve "with the help and co-operation from both labour and the staff". Sales are down from Rs 102 lakhs to Rs 82 lakhs, and the outcome was a deficit of Rs 2 lakhs against a surplus of Rs 12 lakhs previously. Equity dividend, paid at 2 per cent last year, is skipped. The usual payment on preference shares is being made by drawing from the reserves.

SHIVRAJPUR SYNDICATE is proposed to be wound up voluntarily, as it has not found it possible to proceed with the granulated fertiliser mixtures project and is now not carrying on business of any substance. The directors believe that the company will be able to pay its debts in full and an appropriate declaration of solvency will be made shortly. The auditors have observed in their report that, in view of the uncertainty regarding the amount that will be realised in respect of fixed assets, stores, loose tools, etc, and no provision having been made for the fall in the value of the company's investment in C P Railways, they are not in a position to express an opinion whether the accounts show a true and fair view in the case of the balance sheet as at November 30 last and the loss of Rs 2,92,250 for the year ended on that date. The directors concede that in the event of liquidation, it is possible that the assets may fetch less than the value at which they have been shown in the balance sheet and that no provision has been made for depreciation in the value of investment in C P Railways amounting to Rs 2,21,993.

Last year there was no production of manganese ore, the company's traditional activity. The company had applied to government for permission to execute a new mining lease covering an area of about 50 hectares, but the application was later withdrawn on a review of the future prospects. The company had been awaiting a 'carrying on business' licence in connection with the proposed granulated fertiliser mixtures project for which it had applied in May 1970, but it was not received. With a view to financing the project, an offer of a rights issue of preference shares of the value of Rs 21 lakhs was made in April 1970, but this was un-

dersubscribed to the extent of about Rs 18 lakhs. Subsequent negotiations with financial institutions also did not bear any fruit. An approach was made to Killick Nixon in the hope of making up the shortfall in the required finance, but this too did not succeed. In these circumstances, the board decided to wind up the company.

PREMIER AUTOMOBILES expects to produce 13,500 cars during the current year ending June next against 12,381 produced during 1970-71. In the first six months of the current year, average monthly production has been at around 1,100 cars against 1,000 cars in the corresponding period last year, and in the subsequent two months average output increased to 1,200 cars per month. Sales have been brisk. The company has a waiting list of 52,000 customers over and above the government quota representing about 45 per cent of the total production. Production of trucks during the first half of the year was lower at 2,129 against 2,552 owing to a strike in the Simpsons factory which supplies diesel engines for trucks. With the expected improvement in the supply of diesel engines, PAL hopes to produce 4,201 trucks during 1971-72 against 5,001 produced during the previous year. Efforts are being made to ensure larger supplies of diesel engines with a view to increasing truck output to 10,000 per annum in the future.

Total sales of cars, trucks, air-conditioners, spare parts, etc, during the first six months of the year amounted to Rs 19.02 crores against Rs 18.19 crores in the same period last year. The increase was largely due to improvement in sale of spare parts. The management expects a total sales turnover of about Rs 40 crores during this year as against Rs 38 crores during 1970-71. Operating results of the first half-year have been better, with a net deficit of Rs 3 lakhs compared to a loss of about Rs 1.5 crores every year during the last 5 years. According to the managing director, S T Raja, the improvement has occurred because of steps taken to cut down expenditure and increase productivity. The company has approached government for an increased capacity of 18,000 cars per annum, which may be approved shortly. Estimated to cost Rs 5 crores, the proposed expansion would enable PAL to make 20,000-22,000 cars per annum. Financial institutions have been approached for loans of Rs 4 crores, and the balance Rs 1 crore would be met out of internal resources. Meanwhile, improvements are being made in the quality, performance and appearance of the present model of cars.

The Week's Companies

(Rs in Lakhs)

	Suessen Textiles		Madras Rubber		Kirloskar Cummins		National Pipes	
	Latest Year 30-9-71	Last Year 30-9-70	Latest Year 30-9-71	Last Year 30-9-70	Latest Year 30-9-71	Last Year 30-9-70	Latest Year 30-9-71	Last Year 30-9-70
Paid-up capital	70	70	244	244	150	150	70	70
Reserves	45	35	197	176	120	116	16	24
Borrowings	142	131	616	441	215	180	31	54
of which Term borrowings	56	58	323	316	88	72	—	—
Gross fixed assets	147	127	642	567	309	282	83	83
Net fixed assets	119	106	412	426	130	138	31	33
Investments	—	—	6	6	10	2	—	—
Current liabilities	48	43	230	329	293	306	34	39
Current assets	177	164	868	758	637	518	120	154
Stocks	103	88	435	300	401	298	74	105
Book debts	71	74	323	308	234	214	47	43
Net sales	199	153	1558	1733	711	588	82	102
Other income	3	2	30	29	31	44	8	13
Raw material costs	83	54	1035	1190	442	387	39	62
Wages	22	18	134	133	86	73	26	25
Interest	15	11	47	43	18	14	4	3
Gross profit(+)/loss(—)	27	20	149	173	98	100	—2	12
Depreciation provision	7	6	59	53	29	35	3	3
Tax provision	—	—	39	43	48	36	—	6
Net profit(+)/loss(—)	20	14	51	77	21	29	—5	3
Development rebate provision	3	2	7	19	4	6	—	—
Transfer to reserves	9	2	15	29	5	3	—5	—
Dividend								
Amount	E 5 P 3	E 4 P 6	29	29	7	12	P 1 —	P 1 E 2
Rate (per cent)	E 12 P 9.3	E 8 P 9.3	12	12	5	8	P7.15 —	P7.15 E 4
Cover (times)	2.80	1.50	1.58	2.00	1.71	1.25	—	1.00
Ratios (per cent)								
Gross profit/sales	13.37	13.07	9.56	9.98	13.78	17.01	—	11.76
Net profit/capital employed	7.78	5.93	4.82	8.94	4.33	6.50	—	2.03
Inventories/sales	51.76	57.51	27.92	17.31	56.40	53.41	90.24	129.41
Wages/sales	11.05	11.76	8.60	7.62	12.09	12.43	31.71	24.51

NEW DELHI

No Taxes, No Evasion!

EXPECTATIONS or fears aroused by the Finance Minister's promise to bring forward a separate Taxation Amendment Bill to give effect to the recommendations of the Direct Taxes Enquiry Committee, which he described as "valuable and far-reaching", have been very much subdued after the report of the Committee was made public early this week. Some had expected that the Committee on black money, as it was popularly referred to, would come up with something very radical to unearth black money and end its proliferation and the operation of a parallel economy on its basis. Some others had feared that the Finance Minister had let off direct tax-payers lightly in his budget because he was going to have another go at them when implementing the Wanchoo Committee report. In the event, neither of these possibilities appear very real in the light of the recommendations of the report.

After all, what the report does is mainly to suggest some more measures for strengthening and streamlining the tax administration and the machinery of tax collection and to plug some of the more obvious loopholes which help tax evasion or avoidance. Some of these suggestions are certainly useful and valuable. But it needs to be remembered that efforts in this direction have been going on for long — and yet the problem of black money has persisted and has grown over the years.

The Committee has held that the principal factor responsible for tax evasion and hence creation of black money and its proliferation is high rates of direct taxation, particularly in the higher income brackets. The other major cause is the shortages in the economy and the consequent controls and licensing. To outline the causes of black money in this manner is actually to justify its existence, even though a few harsh words have been used in the report against the way it operates and vitiates the economy. From its diagnosis of the problem, it was logical for the Committee to recommend scaling down of tax rates, particularly those on the high income brackets. It has gone to the extent of even arguing that so long as the marginal rates of taxation are "confiscatory", it will be difficult to convince the public that tax evasion is anti-social. This almost provides a moral justification for the tax evader and for black money.

The scheme of income tax rates that the Committee has recommended is interesting and revealing. The Committee appears to be concerned primarily with the maximum marginal rate of income tax, including the surcharge, which it suggests should be brought down from the present level of 97.75 per cent to 75 per cent. It then adds, as if by way of a sop, that some reduction in tax rates should also be given to the middle and lower income brackets. The suggestion with regard to middle and lower income levels is so inconsequential that one of the members of the Committee, in his minute of dissent, has shown that it will serve no purpose at all. He has pointed out that reduction of the effective burden of tax by 2 to 4 per cent for income up to Rs 15,000 per year or so, as has been recommended by the Committee, will provide no lever against tax evasion. Indeed, the "search for a level of tax rate that would really discourage tax evasion without loss of much revenue is not very rewarding". The recommendations of the Committee are, therefore, of relevance primarily for those with incomes above Rs 50,000 per year whose number is hardly 40,000 out of nearly 2 million tax payers in the country. To reduce the problem of tax evasion and black money to one involving only 40,000 tax payers and to recommend tax relief to them does not smack of a serious attempt to tackle it.

In allowing itself to be carried away by the talk of confiscatory taxation the Committee appears to be forgetting that it is precisely this steepness which is supposed to be the merit of our tax system on the basis of which all the claims of socialism and ending income disparities are advanced by the political leadership. It has been claimed that the present maximum marginal rate of income tax, wealth tax and estate duty amount in effect to a ceiling on incomes and that they, therefore, together constitute a socialist measure. If the ceiling that is supposed to be thus imposed is not effective because of evasion of taxes by those who are affected by it, it does not follow that the remedy is to give tax relief. On the contrary, this may strengthen the case for more drastic measures of expropriation to achieve the same, if not more radical, results. Thus it will not be politically easy for the government to accept the major suggestion of the Committee to fight black money by reducing tax rates on the highest incomes.

Typical of the approach of the Committee is also the case it makes for relaxing the penalties for tax evasion and for a plethora of tax deductions, exemptions and incentives. These are spelt out in great detail and the Finance Minister indicated in his budget speech that some of these would be accepted by the government as an alternative to the withdrawal of the development rebate. Deductions and exemptions are even now a prominent feature of our tax system, but the trend in the past few years has been to constantly strengthen the penal provisions to achieve compliance with the tax laws and to make them more stringent. This trend was particularly noticeable during Morarji's stewardship of the Finance Ministry. While Morarji may be dubbed as a Rightist, he did place much reliance on administrative methods — his critics might say, police methods — to secure compliance with the law. He introduced progressively more stringent penalties for tax evasion. The Wanchoo Committee would now reverse this trend. It has made several recommendations to streamline tax administration, but it has at the same time favoured relaxing the penalties for tax evaders even as it has enlarged the scope of exemptions and deductions. For instance, the penalty for concealment of wealth or income is proposed to be linked to the amount of tax sought to be evaded rather than to the total wealth or income concealed.

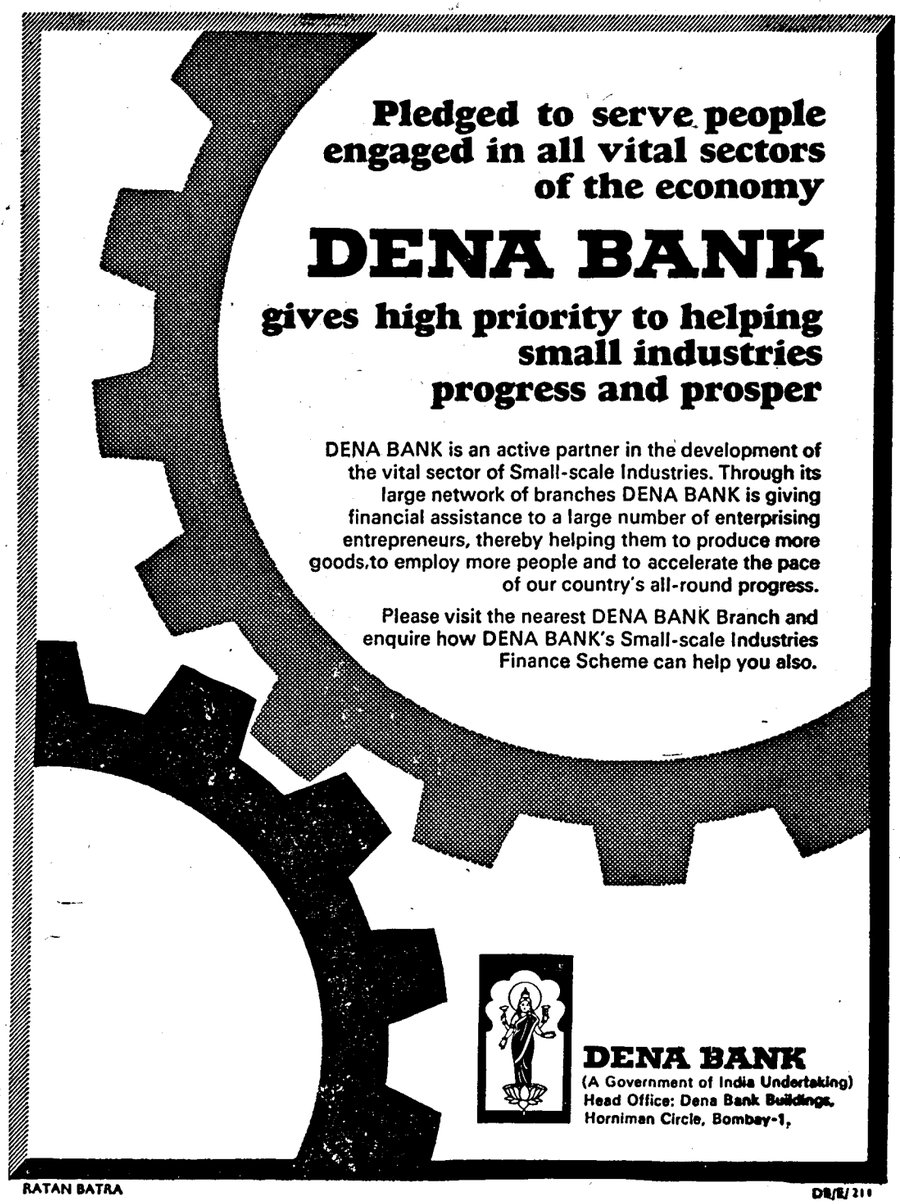
The recommendations in respect of donations to political parties which find a prominent place in the report — considering the scope of the report and the Committee's terms of reference — are rather curious. The Committee has favoured the ban on companies making donations to political parties, but it asks for exemptions from income tax for individuals making donations to recognised political parties. If an individual makes a donation to a political party that is his business, but why should the State extend facilities to him to make such donations? Similarly, the concept of 'recognised' political parties is open to question. It may be all right for allotting election symbols to have the concept of recognised political parties, but to enlarge its scope, as pro-

posed by the Committee, amounts to providing State support for the established political set up in a situation where politics does — and should — register fast changes and new parties and groupings constantly arise and should have a chance to arise through popular approval rather than through various forms of State patronage.

Judging by the first reaction to the Wanchoo Committee's report, it would appear that it has failed to provide an answer to the main question addressed to it and the acceptance of its principal recommendations is likely to be impossible even though some of the detailed recommendations on taxation and the administration of taxes may find acceptance and be implemented.

Meanwhile, the budget for the coming financial year is expected to have smooth sailing precisely because it has attempted so little and has rested on the efforts made in the current year. The tax effort undertaken under the stress of the emergency has provided a fiscal cushion to the coming year and so additional effort did not need to be so drastic as it might have had to be otherwise. This has even enabled a sizeable step up in the provision for the Plan in the coming year so that finance at least would not be a constraint on performance. It is now for the organisational and administrative machinery to show results and if it does the prolonged deadlock in the development process may at last be broken.

The reactions of the political parties to the budget have been of a familiar kind. Most notable are the voices being raised against the levy on kerosene and on fertilisers. In the context of the pressing need for raising resources from the agricultural sector, if the leadership still succumbs to the pressure of the rich farm lobby, which is bound to be very active from now to the time when the Raj Committee presents its report, the resources position which appears somewhat easy at present may again turn very difficult in a year.



Mopping Up the Agricultural Surplus

Limited Role of Direct Taxes

Charvaka

THE way the terms of reference of the Committee on taxation of agricultural income and wealth have been framed speak for the casual manner in which the subject has been dealt with by the government. The official notification calls upon the Committee to suggest means by which taxation of agricultural income and wealth can be used more effectively *inter alia* "for helping to achieve the objective of self-reliance" — as if the case for raising the incidence of direct taxes on the farm sector cannot be sustained without being tagged to the self-reliance slogan.

The planning process calls for a policy frame with regard to not only the investment strategy but also the distribution of the savings 'burden' among the different functional sectors of the economy. It is now widely accepted, both *on a priori* grounds and on the strength of historical experience of other countries, that a rupee of savings mobilised from the farm sector has many more dimensions than an equivalent amount obtained from the non-farm sector. It not only augments national savings, but also brings with it additional grains and raw material necessary for stepping up industrial investment and growth. While this has not been lost on the planners, the political leadership at the state level has consistently scuttled all moves to mobilise a larger surplus out of the agricultural sector. In this context, it may be rather facile to assume that the massive mandate that the ruling party has obtained in the recent assembly elections in the states would lead to the framing of purposeful fiscal policies to put the industrial economy on a perceptibly higher growth path. Judging from the way the government is tackling the problem of agricultural taxation, the portents are scarcely encouraging.

Firstly, taxation of agricultural incomes is a state subject. If the government were determined to mop up farm savings, it could have immediately started the time-consuming process of putting through the constitutional changes required for a unified direct tax system, even as the other modalities are being looked into by the Raj Committee. Agricultural income-tax has been suggested also as a measure to plug loopholes and check evasion of tax on non-agricultural incomes and this is possible only if the taxation of global incomes, including agricultural incomes, is under the jurisdiction of a single authority. That the government is aware of this is evident from the fact that the Raj Committee has been asked to make recommendations "on the necessary changes in the system of assessment, collection and distribution of these taxes so that the resources available to the states from such taxation can be maximised without detriment to the rights and legitimate interest of any state".

Secondly, it is strange that the government should be pinning such high hopes on direct taxation measures alone for mobilising farm savings. The historical experience of Japan, the Soviet Union and even some developing countries points to the fact that direct fiscal methods alone can touch only a fringe of the surpluses generated in the farm sector. Instead, many fiscal and para-fiscal methods will have to be used for this purpose.

The revenue potential of a progressive system of direct taxation of the type imposed on the non-farm sector is limited when applied to the agricultural sector. In the non-agricultural sector, more than 75 per cent of the direct taxation is borne by households having incomes above Rs 25,000 per annum. In the farm sector, such high-income households are likely to be negligible in number. There are two other factors which would make progressive direct taxation relatively ineffective in the farm sector. Firstly, if the state governments earnestly implement ceiling laws, the existing ones as well as the more stringent ones proposed, the scope for the operation of high marginal tax rates will get further reduced. Secondly, the size of households, as also the average number of workers per household, are relatively high in the farm sector as compared with the non-farm sector. The size of households and the number of workers increase with increase in the size of holding. For instance, the 16th Round of the National Sample Survey on land holdings (reference year 1969-70) shows that the average size of households is as high as 8.35 and the average number of working members 4.16 in the size-group of operational holdings of 50 acres and above. The large size of households as well as the large number of working members provide much scope for agricultural households to partition their incomes and show more than one assessee. This is not to dispute the need to reform the direct tax system as it applies to the farm sector, but to point out that reliance on only one system of direct taxation will not be sufficiently productive of revenue.

Therefore, if the Raj Committee is to seriously tackle the problem of mobilising additional resources from the farm sector, it will have to look beyond its terms of reference which, by and large, emphasise only direct taxation of agricultural income and wealth. Many other fiscal and para-fiscal measures, such as stiff indirect tax levies on agricultural inputs and on consumer goods used mainly by the richer sections in the rural sector, lower prices for agricultural commodities procured by the state trading agencies and increased betterment levies and irrigation charges may have to be recommended so that these measures together yield a sizeable amount of agricultural surplus to be siphoned off for industrial growth. In this context, the recent shift in the terms of trade in favour of agricultural commodities is certainly not conducive to creating a climate suitable for stepping up industrial investment. Viewed from this standpoint, the food subsidy of about Rs 100 crores provided for in the Central Budget for 1972-73 certainly runs counter to the dictates of a comprehensive policy for mobilising agricultural surpluses.

The Raj Committee should, therefore, make a critical assessment of every government policy which has a bearing on the subject of mobilising farm savings and recommend comprehensive measures so that what the land-owning class are made to part with through direct taxes is not surrendered to them by the Exchequer in the form of various subsidies and so-called incentives.

PAKISTAN

Still the Best Indian

(From a Correspondent)

IT is a miracle, but President Bhutto still survives. He is clearly one of those people who thrive on catastrophe. The compounded effects of economic slump, domestic class warfare, open regional conflict and national humiliation would have destroyed lesser men much earlier. The price of survival is constant movement. For even as he plugs one set of holes in his shaky craft, dozens more appear. Pakistan is a colander in stormy seas; to keep it afloat at all is Bhutto's miracle.

What saves him from disaster is the disunity of the opposition, its incompatible purposes. Everyone has long lists of questions, but no new answers, let alone the power to implement. The country seethes with opposition, but has no coherent alternative.

The urban middle classes who overthrew Ayub Khan (or gave Yahya Khan the opportunity to do so) are thoroughly alienated from Bhuttoraj but, as always, are at sixes and sevens. The workers seize the factories with despairing regularity, but have no alternative programme to offer. Even the police have organised a series of localised strikes — with violence — in the major centres. Finally, in Baluchistan and the North West Frontier Province, some of the men of the Wali Khan NAP and the Jamiat-ul-Ulema-i-Islam talk wildly of separatism. But virtually nothing yokes all these willing horses into one team in one direction. There is no revolutionary party, no cadres, no alternative regime being formed in the wings.

Unless it be the army. So far, the military leadership has perhaps reasoned that for it to assume power and put down firmly the squalid anarchy breaking out on all sides might well precipitate the complete disintegration of the country. It would be better to allow Bhutto and the "civilians" — buttressed by martial law — to take the discredit of the present situation. The one proviso here would be: provided the President does not try and secure popularity by curbing the military's position of supremacy within the State. So far Bhutto appears to have kept faith with the army, or at least, its dominant faction. He did sack thirty generals and replaced the heads of the army and the air force, but that left only a surface graze. In his land reforms, Bhutto carefully exempted the military from some of its more stringent provisions. But the pressure on the President must be severe. It can be no joy to be ground between the millstones of the military and the anti-military opposition.

It is understandable that Bhutto's friends have grown very few. Even the rats in his own party have started skipping off the boat in the expectation that it will shortly sink. Two PPP members of the National Assembly recently called for Bhutto's resignation as Chairman of the party, for all party offices to be elective and for an end to martial law. Other splits in the PPP suggest that the meeting of the National Assembly may only reveal how far Bhutto's term as President has led to the disintegration of his political base. The rewards have been too few to keep the militants loyal.

Not that the President has not made considerable efforts to win general support. The uncensored press and rhetorical foreign policy bear witness to his attempts to woo the middle class. His proposals for labour law reforms were designed to win the workers, although they seem to have done no more than spill petrol on the blaze of discontent. Of course, the reforms were not helped by Bhutto's simultaneous denunciation of strikes and *gheraos*, his firm refusal to allow increased minimum wages in the face of fierce inflationary pressure, and the dark threats that "the strength of the streets will be met with the strength of the State".

However, none of this matches the scale of Bhutto's efforts to secure for himself a rural base against the ungrateful cities. The proposals for radically reduced land ceilings, for expropriation of surplus land without compensation, and for security of tenure are suitably dramatic. And if they are not enough, the President threw in for good measure the promise of Rs 1,000 crores aid for agricultural development (he did not identify the source of this largesse). Like peasants the world over, the mass of Pakistani farmers are conservative, and Bhutto's aim is to prove that he is the best conservative they have, the bulwark between the kulaks and their 'green revolution' and the fearful depredations of the cities. A less overt aim in the scheme was the attempt to undermine the power of the feudal chiefs and tribal sardars of the North West Frontier province and Baluchistan, the basis of the Wali Khan NAP and the JUI (no doubt to the President's enormous pleasure, the Leftist Wali Khan was forced publicly to defend the landlords). Of course, the PPP itself has enough landlords in its ranks to modify the impact of the reforms in Punjab and Sind.

Yet even this effort may do more harm than good. Land reform is as likely to frighten the peasants into the arms of the opposition as produce support for the President. The principle of the expropriation of land is far too dangerous for the rich peasants to tolerate even if they are provided with the agreeable picture of the downfall of their landlord rivals.

Bhutto has little option at the moment but to try anything he can. His trail of spectacular non-events — leaving the Commonwealth, tripping round the Middle East, visiting Peking and Moscow — may dazzle and even bemuse some of the urban middle class, but it will not console those for whom bread, let alone butter, is vital. Even the potential of further nationalisation is probably exhausted — the audience is no longer impressed, but the businessmen are so alarmed, ailing national production yet again declines.

The prospect remains grim both for Bhutto and the opposition. None of the real issues were settled in the catastrophe of the past year, and no alternatives created. Faced with, as the Chinese would say, a thousand dragons, Bhutto cannot afford any coherent strategy. He has to live from hand to mouth, hanging on as best he may in the hope that somehow the dragons will go away of their own accord. The man has enormous style, but his recent defeats — the concessions to NAP and JUI, announcing the end of martial law on August 14th — must have depressed him.

From the point of view of Delhi, Bhutto is probably the best Indian the government has in Islamabad. It may rankle after all his bombast in the past, but still Bhutto is, for the government of India, an infinitely superior alternative to some of the others in the background. It would be foolish of Delhi to force Bhutto into public humiliation, to make the recognition of Bangladesh or the signing of a peace treaty the precondition for the release of the Pakistani prisoners of war. That way could lie the dissolution of Bhutto's regime and the Pakistani Establishment. The more myopic Indian nationalists may feel Pakistan's disintegration is the most desirable outcome. But although there is no revolutionary party in Pakistan yet, Indian intransigence could strongly encourage its formation on a much more powerfully anti-Indian basis than exists at present. Corpses have an awful way of spreading infection: and India is not strong enough to risk any more ailments.

Mixed Verdict in the North

(From a Special Correspondent)

LIKE other states, Punjab, Haryana and Himachal experienced the full impact of the "Indira wave" and voted Congress, with minor surprises here and there to relieve the monotony. But the poll verdict in each revealed some distinctive features and new political equations. Having had enough of the Akali-Jan Sangh hotchpotch, political uncertainty and high-level corruption, the people of Punjab have swept the Congress into power after a five-year break. In collaboration with CPI, its Lok Sabha poll ally, Congress has humbled the Sant Akali Dal and also its unofficial electoral partners, Jan Sangh and CPM. The Akalis' strength has been sharply cut from 57 seats to 24. For once their distinctly communal approach and their bid to exploit the fears of the rich landed class misfired. Owing to the Dal's ill-conceived poll plank and the subtleties of Indira Gandhi's slogans, the battle between the two principal rivals was transformed into one between the poor and the rich.

Lakhs of urban and rural voters cast their lot with Congress which was accepted as the champion of the poor and the only party which could play the role of saviour. "Economic salvation first, religion later" was the general reaction. Many Akali candidates were prosperous landlords but their personal influence and the power of the big purses they commanded proved of little avail. Owing to village feuds, landless labourers and tenants all turned hostile to the wealthy few. Many veterans, including some Ministers of the Badal cabinet which was in power until the dissolution of the Punjab Assembly a year ago, were defeated. Their reputation had suffered greatly because of the misdeeds of the Akali regime culminating in the long lists of corruption charges, currently the subject-matter of an official inquiry. The other factors that contributed to the Congress victory were Indira Gandhi's radical image, her impressive leadership in the war which won the hearts of the numerous defence personel hailing from the three states, her promise of a stable government instead of the make-shift arrangements that had reduced the administration to a shambles, and the near-total support of the Hindu population which had earlier backed the Jan Sangh.

The Harijan vote too made a significant difference. Through misguided policies, the Akali Ministers had repeatedly hurt the Harijans. There were complaints of highhandedness by Akali "jathedars" and other local stalwarts against this under-privileged but highly sensitive class. The promise of proprietary rights secured the Harijans' support to Congress candidates. The Hindu and Harijan votes, together with some others, turned the scales against the Akalis in Sikh majority areas. Even so, the Akali Dal can claim the satisfaction of having increased the percentage of its votes from 20.46 in 1967 to 27.65 this time. There is a slight fall since the mid-term poll of 1969 when its tally stood at 29.36. The shift in Punjab politics from communalism and other parochial considerations to democracy and secularism queered the pitch for the Akalis in their bid to retrieve their prestige. Sant Fateh Singh's leadership is not an asset to the party either. His image is no longer that of a popular saint-statesman.

Totally Eclipsed

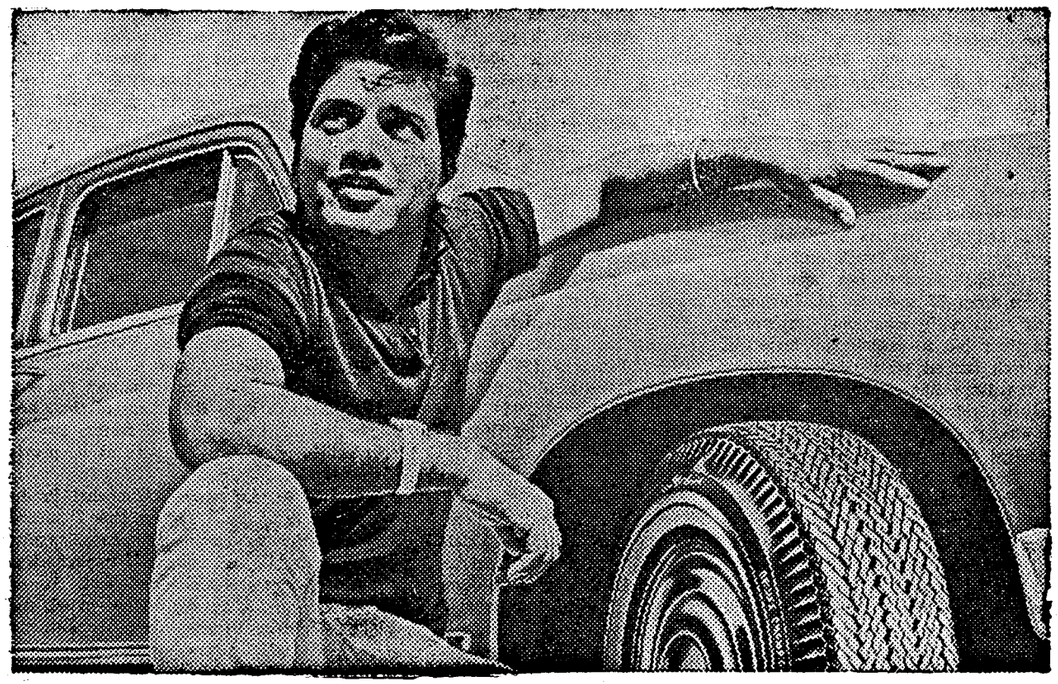
The Akalis' one-time ministerial partner, Jan Sangh, has been totally eclipsed in Punjab, all its candidates having lost by large margins, even in the party's traditional strongholds. The elimination of Congress(O), Swatantra and Socialists has not caused any surprise; none of them has been an effective force in this region. The CPI however has been a major beneficiary of the poll. Climbing on the Congress bandwagon, it has raised its strength from 4 to 10 in the new House and its vote percentage from 4.84 in 1969 to 6.51. With the manifestation of the voters' confidence in the Congress-CPI alliance, polarisation of the state's political forces is now sharper.

The unique features of the Haryana poll are the failure of Chief Minister Bansi Lal's gamble in holding elections a year earlier and the reinforcement of Congress(O) which has managed to capture 12 seats against 5 in the dissolved House. This party has suffered heavily in other states but has unexpectedly gained in Haryana. The vote does not indicate the popularity of Congress(O). The growing hostility towards Bansi Lal and the combined manoeuvres of the opposition facilitated the success of Congress(O) candidates, some of whom have been defectors in a state notorious for shifting political loyalties. In other states Congress has improved its position considerably, but the Haryana unit has suffered a setback, its tally being 51 against 55 in the old Assembly. Ironically, the Chief Minister's strong points have recoiled on him. He hoped to cash in on the state's rapid economic development and the record-breaking performance in irrigation and rural electrification. But almost all the Ministers associated with development were rejected by the electorate. It is the opposition which has emerged stronger from the ordeal. Some stalwarts such as Rao Birendra Singh, the Vishal Haryana Front leader and a former Chief Minister, have however received a setback through the defeat of their nominees. Caste and clan factors have not played as great a part as in previous polls.

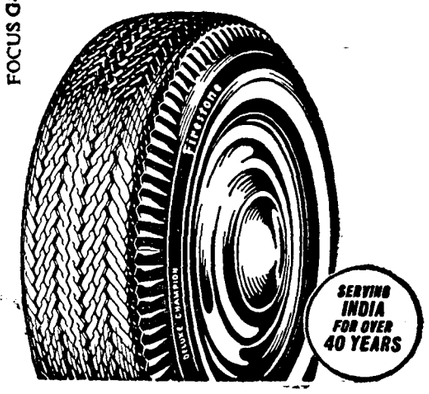
The verdict in Himachal Pradesh, traditionally Congress, has exceeded the party's most optimistic expectations. It has enhanced its majority to more than two-thirds, with 51 seats out of 65, against 34 out of 60 in the dissolved House. Three constituencies are still snow-bound. Jan Sangh's strength has been cut from 7 to 5. Congress(O) as well as CPI have been badly mauled. CPM has managed to record its presence for the first time with a solitary seat. Himachal's verdict thus differs from that of its neighbours, Punjab and Haryana. It has not totally rejected the Jan Sangh as Punjab has done but has eliminated CPI instead, while Punjab has more than doubled the CPI tally. But like Punjab, Himachal has eliminated Congress(O) and Socialists. While in Haryana the opposition forces have reinforced their ranks, in Himachal they have been cut to size. In both Punjab and Haryana, several former Ministers lost the battle but in HP all Ministers succeeded. Though geographically adjacent, the problems and political permutations of each state are different.

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A Made to Order Election

THE usual stock-in-trade for an election review, *viz*, statistics of votes polled, has only a very limited relevance to an understanding of the political configuration of the West Bengal electorate in the elections to the State Assembly. Even if the accusations and allegations of rigged polls, voiced by the Left Front leaders and the Leftist press in Calcutta are brushed aside, what one knows from direct evidence and careful assessment of all that has come out in the Establishment press leads one to conclude that widespread terror and manipulations were resorted to by the ruling party and the complaisant administration to ensure the 'win' for Congress(R).

Left press and spokesmen have alleged that when eleventh hour intelligence reports and the Prime Minister's own assessment during her eve-of-poll whistle-stop campaign raised doubts about Congress(R)'s success in the polls, well-prepared contingency plans providing for open and bold tampering with the election process were put into operation and carried out with ruthless efficiency. In any case, the actual outcome in a number of key constituencies is, on the face of it, so much divergent from the secular trend that it cannot but raise quite a few pertinent questions, particularly in view of the fact that none of the pollsters or correspondents who had filled newspaper columns with their analyses and prognoses before the elections ever conceded anything but a slight edge to Congress(R) over CPI(M).

In some of the key contests against CPI(M) stalwarts like Jyoti Basu, Tarun Sengupta, Benoy Konar, etc, the Congress(R)-CPI alliance has increased its poll by 100 to 300 per cent. This looks more like the product of *indrajal* than of *Indirajal*.

This is not to rule out possibilities of a real shift having taken place in the alignment of voters. Indeed, from personal contacts with cross-sections of the population, one gathers some impressions of a cross shift—that is, of some sections moving away from CPI(M) and other Left parties towards the Congress and some others doing the opposite. There are also indications that some elements have moved over to a position of apathy and equidistance from both the major bidders for power. But in view of the extremely doubtful character of the voting figures, it is impossible to determine either the direction of the net shift or its dimensions.

Nothing to Sustain the Rhetoric

There is, however, nothing in the poll statistics, even as they are, to sustain the rhetoric of a prominent and learned CPI MP who is reported to have said in the Lok Sabha that the CPI(M) had received a "thoroughgoing trouncing" and that people have discarded "a party whom they had clapsed to their heart a little while ago". For even the very questionable poll figures show that CPI(M) has got over 27 per cent of the total valid votes. After the year-long process of softening up of the CPI(M)'s mass bases through all forms of legal and extra-legal poundings by the ruling party and the administrative machinery, CPI(M) has been able to muster every fourth vote cast in the polls, which would have enabled the party to bag a quarter of the total seats under the proportional representation system.

According to a preliminary computation, out of a total of 13.35 million valid votes (59.84 per cent of the electorate), CPI(M) collected 3.62 million or 27.14 per cent as against 6.34 million or 47.52 per cent collected by Congress(R). CPI(M)'s share in the total has of course dropped by 5 percentage points from the peak reached in 1971. But last year the party was in almost total isolation; this time it is closely bound with all the Left forces in the state. Candidates of the Left alliance have between them polled about one third of the total valid votes despite everything. This is, therefore, hardly the time for singing a requiem for the Left in West Bengal.

This does not, of course, mean that the Left parties, and more particularly CPI(M), are not facing an extremely grave crisis. Totally unprepared for the turn that events have taken, all these parties are practically paralysed at the moment. Full of faith in the ruling class's devotion to the norms and forms of bourgeois democracy, even on the day after polling day, after having seen at first hand the actual conduct of the elections in and around Calcutta, the leaderships of these parties were expecting an impressive showing, if not an actual majority in the Assembly. Then came the flood of refugees from terror. The state headquarters of CPI(M) itself turned into a refugee camp with men, women and children overflowing into the narrow lane running in front of it.

Bottled up in a crisis-ridden state like West Bengal, isolated from and standing against the strong currents of national euphoria, subjected to ruthless attacks by the ruling class because of the immensely enhanced strategic importance of this state as a result of the recent geo-political changes in the subcontinent, CPI(M) has been placed in an extremely tight corner. Hiren Mukherji's description of CPI(M)'s dilemma is very apt "unable to go beyond the ballot box, unable to go to the barricade ... reconciled to the practice of parliamentary proficiency ...". If the learned professor would himself care to understand the significance of what he has said, he would not feel so superior about it.

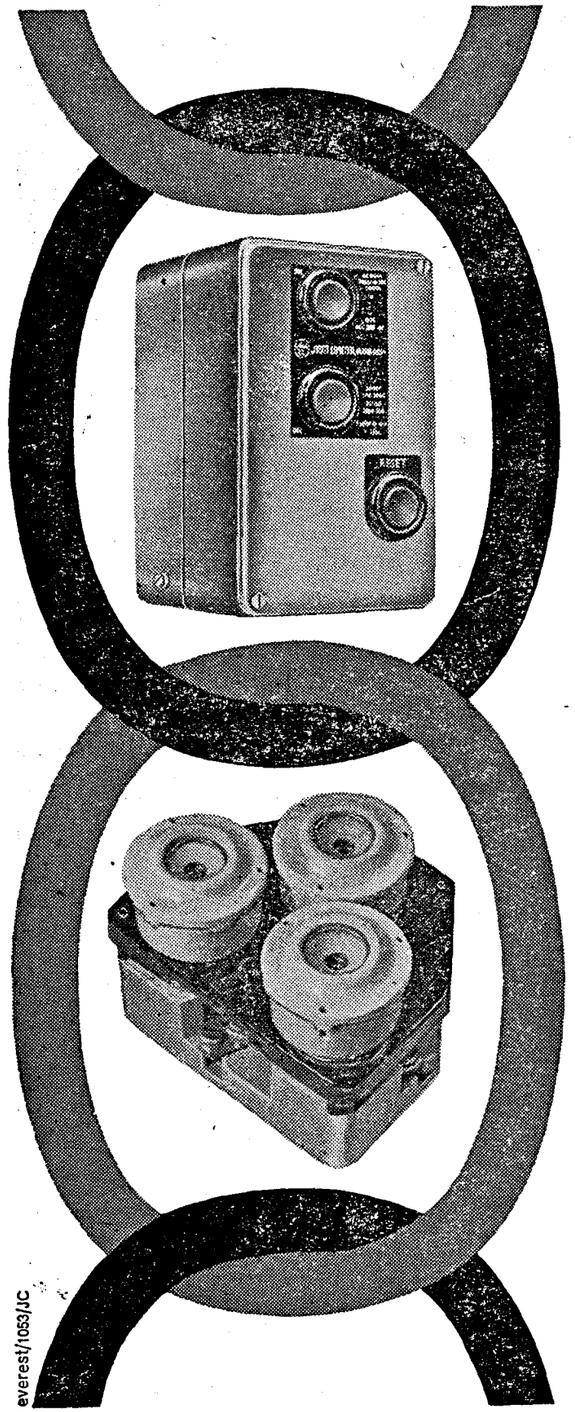
March 20

[More despatches from correspondents follow the Review of Agriculture.]

TABLE: CPI(M) AND CONGRESS VOTES IN SOME SELECTED CONSTITUENCIES

	Votes Polled				Total Adverse Movement against CPI(M) in 1972 over 1971
	1967	1969	1971	1972	
Baranagar					
CPI(M)	31,354	45,261	43,340	30,158	50,040
Congress	27,895	27,669	32,287[1]	69,145[2]	
Dum Dum					
CPI(M)	37,006	45,159	40,736	15,023	85,713
Congress	30,682	30,867	31,423[3]	91,423	
Panihati					
CPI(M)	34,671	53,346	58,545	27,540	81,491
Congress	23,851	22,029	24,279[4]	74,765	
Memari					
CPI(M)	22,217	31,337	39,366	11,229	60,090
Congress	23,010	21,785	21,166	53,119	
Nadanghat					
CPI(M)	21,070	28,304	34,288	2,621	71,118
Congress	26,025	24,328	22,317	61,617	
Kalna					
CPI(M)	22,128	29,384	31,896	929	68,373
Congress	20,877	22,188	24,950	62,336	

1 Bangla Congress; 2 CPI; 3 PSP; 4 CPI.



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REVIEW OF AGRICULTURE

March 1972

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Sorry

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Missing Dimensions

AT no time have the Agricultural Prices Commission's recommendations with regard to reducing the procurement price of wheat had more relevance than now. With four consecutive good harvests behind and a fifth one a near certainty, with the Fourth Plan's buffer-stock target already realised and with indications that what the public distribution system can sell is limited more by demand, procurement operations have of late become price support operations. In the circumstances, the argument, perhaps valid under conditions of shortage, for an incentive price to make possible the achievement of procurement targets does not hold any more. It is also in the context of procurement prices operating as support prices that the APC has now suggested that state-wise procurement targets are no longer necessary. If despite all this food prices have contributed to the increase in the general price index in 1971-72, it has more to do with the failure to use the buffer-stocks to check spells of price increases. Moreover, quite contrary to the APC's insistence that the public distribution network should be strengthened at this stage, the number of fair price shops was gradually reduced on the excuse of 'abundant' supplies. Or was the real reason the substantial subsidy (at current rates, Rs 120 crores in 1972-73) necessitated by the high procurement prices and the low issue prices set at a time when cheap PL 480 wheat was available to be pooled with the high priced indigenous wheat? And why was this option chosen when the burden on both government and consumer could have been reduced by lowering procurement prices?

If food policy has been only partially effective, it is of serious concern since it impinges on much more than the immediate availability of cheap grains and reflects some of the disturbing aspects of our planning. Beyond satisfying existing effective demand, in a framework of planned growth, food policy must aim to make food available to wider sections of the population who are currently below the poverty line and to underpin fresh investment programmes by mobilisation and transfer of agricultural surpluses. Food policy must therefore be a support to an overall agricultural policy. To the extent that the artificially high prices of wheat have led to an undue accent on its production relative to rice or the cheaper coarse grains, and to the extent that the technological revolution in cereals has led to the unplanned transfer of land from cash crops and pulses, the needs of planned growth have not been met. One could defend the accent on wheat by arguing that the official intention is to ensure overall sufficiency of foodgrains and therefore to bank on a cereal in which the technological breakthrough has been the most conspicuous. But such a line of argument would also imply a comprehensive public distribution network, whereas today progressively free rein is being given to free market consumer preferences and to production decisions supported by artificially high prices.

As has become evident by now, the sensational breakthrough in productivity has been primarily confined to wheat — thanks to which, as the last APC report pointed out, the overall rate of growth of foodgrains has been maintained in the sixties. But even here the tendency has been for the rate to level off, with most of the larger farmers who could take to HYV having adopted it. In rice, the technological breakthrough has yet to be made commercially viable, and in pulses the new short duration 'catch' varieties are yet to be carried to suitable low irrigation potential areas. Given the need not to displace cash crops, the growth of foodgrains production needs to be maintained by increases in yields per-hectare — using land more intensively and using it for purposes in which it has a comparative advantage. This entails an effort at a further technological breakthrough. But, more importantly, it implies a more organised extension effort — first, to carry the new varieties of rice and pulses to the areas suited to them; secondly, to induce the smaller farmers, who have been largely left outside the pale of HYV, to adopt the new varieties; and thirdly to exploit the possibilities of dry farming.

However, as Dharm Narain forcefully argues in his article, the mere maintaining of the growth rate will not be enough if agricultural policy is to be linked to the wider objectives of income and employment growth. Even if the rate of growth of foodgrains production is raised from its present 2.9 per cent per annum to 4 per cent per annum this would still leave 15 per cent of the population below the poverty line at the end of a decade.

Neither the Mid-Term Appraisal, nor the Economic Survey, nor the Budget, seems informed by the full dimensions of this problem or resourceful in ideas on how to rectify the pace and balance of agricultural growth.

Growth and Imbalances in Indian Agriculture

Dharm Narain

Even with the bumper harvest of 1970-71 the growth rate of total foodgrain output at 2.9 per cent per annum since 1949-50 through 1970-71 is no higher than that, at 3 per cent per annum, realised during the period 1949-50 to 1964-65. And if the focus be extended to include cash crops, for which the growth rate for the respective periods shows a significant decline from 3.6 to 3 per cent per annum, the overall growth rate of agricultural output is seen to drop from 3.2 to 2.9 per cent per annum. This is giving rise to a major imbalance between the foodgrain and the non-foodgrain components of agricultural production.

Adequacy of a rate of growth of agricultural output is a relative matter, related to the income-employment goals we set ourselves to achieve. Unless we set our sights so low as not to be able to make much dent on the problem of poverty except over a very long haul, the growth rate of foodgrain output over the next decade would need to be higher, at any rate not significantly lower, than 3.5 per cent per annum. The expenditure elasticities of demand for cash crops are around unity or above and so the growth of 3 per cent per annum in per capita expenditure would imply a growth rate of around 5.5 per cent per annum in the demand for cash crops.

However, whereas the need is for achieving for cash crops a much higher growth rate of output than for foodgrains, what has been happening since the mid-sixties is exactly the reverse of it. While the growth rate for foodgrain output has been about maintained, that for cash crops has suffered a sharp contraction in recent years.

It is therefore important to inquire into what lies behind this near-paralysis in the output of cash crops. Since the growth rate of productivity for cash crops seems to have been about maintained, the decline in the growth rate of output appears to be ascribable almost entirely to the loss of area these crops have suffered during recent years. Cash crops have lost acreage to foodgrains not only in a relative sense but also in the absolute.

So long as a technological breakthrough does not occur in cash crops, the larger part of the step-up in the growth rate of their output will have to be achieved through expansion in their cropped acreage. Even if the growth rate of productivity for cash crops is stepped up to 2 per cent per annum, the entire addition made to the gross cropped area will need to be assigned to cash crops if their output is to be made to increase at around 5.5 per cent per annum. In other words, the entire burden of accelerating the growth rate of foodgrain output, nay even of maintaining it, will have to be borne by the growth rate of their per hectare productivity.

So far, however, if foodgrain output has been able to maintain its growth rate, this it has done by throwing at least a part of its incidence on cash crops through a suction of their acreage. And this is because a real breakthrough in per hectare yields has so far been confined to wheat. While bajra and maize have maintained the growth rates of their per hectare yields, of rice and jowar even this cannot be said. In fact, the pull of the cereals in drawing area away from other crops has not been confined to cash crops; a good part of the incidence has fallen on the pulses. This has given rise to another imbalance — an imbalance between cereals and pulses within the foodgrain basket.

Another imbalance introduced by the technological lag belongs within the cereals basket, crucially manifesting itself in the disparate performance of rice and wheat.

Attention needs to be drawn also to the high degree of regional concentration which has characterised the increases in foodgrain output in recent years, over two-thirds of the increase in 1969-70 over the production in 1964-65 having been contributed by three states alone, Haryana, Punjab and Uttar Pradesh. Other states and regions have to be lifted up, most of all such pockets of concentrated poverty as, for example, eastern Uttar Pradesh, Bihar and Orissa.

THE induction of the new technology in Indian agriculture in recent years has initiated a process of qualitative transformation importantly characterised by changes in the outlook and attitudes of the farming community. And indeed in one segment, the production of wheat, a veritable revolution has occurred. The growth of wheat output at a compound rate of nearly 14 per cent per annum since 1964-65 — the year of peak production immediately preceding the launching of the High-Yielding Varieties Programme — through 1970-71 constitutes truly an outstanding achievement. Even more impressive, the per hectare yield of this cereal has increased over the same period at a compound rate of 7.5 per cent per annum. This development provides a window on the promise of the new technology. But if its realisation is to be measured — though this is not the only way of measuring it — by the improvement in the growth rate of total foodgrain output, and even more in that of the agricultural output as a whole, over that achieved between 1949-50 and 1964-65, the promise has yet to be realised. It could, of course, be argued that a more meaningful test here would be the improvement in the growth rates for per hectare productivity. But even by this test, if we exclude wheat, the picture is hardly flattering.

[This paper constitutes the text of the author's Technical Address at the Inaugural Session of Silver Jubilee and 25th Annual Conference of the Indian Society of Agricultural Statistics held in March 1972 at New Delhi.]

Limited Manifestations

In this sense, the quantitative manifestations of the qualitative changes currently under way in the growth rates not of specific segments but of totalities are still limited. After all, even with the bumper harvest of 1970-71 the growth rate of total foodgrain output at 2.9 per cent per annum since 1949-50 through 1970-71 is no higher than that, at 3 per cent per annum, realised during the period 1949-50 to 1964-65. And if the focus be extended to include cash crops, for which the growth rate for the respective periods shows a significant decline from 3.6 to 3 per cent per annum, the overall growth rate of agricultural output is seen to drop from 3.2 to 2.9 per cent per annum. This is giving rise to a major imbalance between the foodgrain and the non-foodgrain components of agricultural production but to this we shall revert later. Meanwhile, it deserves to be emphasised that even the maintenance of the growth rate of foodgrain output at around 3 per cent per annum over a span of two decades is no mean achievement. Nor indeed does it imply a denial of the contribution of the new technology but for which the growth rate would have even decelerated. The question, however, is whether this growth rate is adequate.

Adequacy of a rate of growth of foodgrain output is a relative matter, related to the income-employment goals we set ourselves to achieve. If per capita real income grows at less than 1 per cent per annum, as has in fact been the case during the 1960s, and if the distribution of income becomes more skewed, then, with the yardstick of effective demand which would keep the relative price of foodgrains constant, a growth rate even lower than that realised can be shown to be adequate. But if the economy is made to grow faster and a sizeable dent is sought to be made on the problem of India's poverty by enlarging employment opportunities, the realised growth rate starts showing itself to be inadequate. To indicate roughly the magnitudes involved, let us illustrate.

If the national income is planned to grow at a rate such that, given the compound growth rate of population at 2.2 per cent per annum, per capita consumer expenditure increases at 3 per cent per annum and, further, if income inequalities are sought to be reduced so as to bring down the concentration ratio pertaining to the distribution of population between the different expenditure classes from the initial level of 0.33 to 0.25 over a decade, the growth rate of demand for foodgrains would rise to 4 per cent per annum. The above objectives, however, imply an increase in the per capita expenditure of the poorest four deciles of the population at 5.4 per cent per annum. If it is assumed that their incomes (and expenditures) grow roughly in proportion to the number of man-days worked, the employment opportunities for these people would need to expand at over 7.5 per cent, and for the population as a whole at under 4.5 per cent, per annum.

If this goal is found too ambitious to pursue, and the task of bringing down the concentration ratio by the same magnitude is sought to be achieved over a longer span of, say, 15 years, the growth rate of demand for foodgrains would be around an average of 3.6 per cent per annum for the period. This would still require an expansion of employment opportunities — measured in terms of man-days — for the bottom four deciles of the population at over 6.5 per cent, and for the population as a whole at 4 per cent, per annum.

If even this goal is found too difficult to achieve so that only the per capita expenditure is planned to grow at an annual rate of 3 per cent but no effort is made to improve the income distribution, the demand for foodgrains would grow over the next decade at an average rate of 3.5 per cent per annum.

It may here be pointed out that the attainment of the first objective would still leave 15 per cent of the population below the poverty line at the end of a decade; the attainment of the second would leave 10 per cent of the population below this line at the close of a 15 year period; and the pursuit of the third would take more than seven five-year plan periods to lift the entire population above the poverty line, the line itself being defined as a meagre per capita expenditure of Rs 20 per month at 1960-61 prices. Since the concentration ratio assumed for 1970-71 is the same as obtained in 1960-61, any deterioration in the income-distribution that may have occurred over the period, as some believe it to have occurred, would leave the end results of the efforts implied in these objectives even poorer than those indicated above.

Compound Growth Rates in Agriculture : All-India
(Per cent per annum)

Crop	1949-50 to 1964-65	1949-50 to 1970-71
Area		
Rice	1.33	1.18
Wheat	2.68	2.48
Cereals	1.29	1.17
Pulses	1.89	0.91
All foodgrains	1.41	1.13
Foodgrains exluding wheat	1.20	0.98
Oilseeds	2.68	2.02
Cotton	2.46	1.47
Jute	3.01	1.67
Sugarcane	3.27	2.72
Non-foodgrains	2.61	1.89
All commodities	1.61	1.26
Production		
Rice	3.48	2.92
Wheat	4.00	5.00
Cereals	3.24	3.13
Pulses	1.65	0.94
All foodgrains	3.05	2.89
Foodgrains excluding wheat	2.90	2.40
Oilseeds	3.33	2.77
Cotton	4.56	3.17
Jute	3.50	1.96
Sugarcane	4.52	3.99
Non-foodgrains	3.63	3.03
All commodities	3.25	2.93
Yield		
Rice	2.13	1.72
Wheat	1.27	2.47
Cereals	1.93	1.94
Pulses	—0.24	0.03
All foodgrains	1.63	1.74
Foodgrains excluding wheat	1.63	1.51
Oilseeds	0.63	0.74
Coton	2.04	1.67
Jute	0.48	0.28
Sugarcane	1.21	1.24
Non-foodgrains	1.00	1.12
All commodities	1.61	1.66

Note: For the drought years, 1965-66 and 1966-67, adjusted index numbers have been used.

It is thus clear from these illustrative exercises that unless we set our sights in respect of income-employment goals so low as not to be able to make much dent on the problem of India's poverty except over a very long haul, the growth rate of foodgrain output over the next decade would need to be higher, at any rate not significantly lower, than 3.5 per cent per annum. The magnitude of the effort involved in achieving this step-up, however, does not fully come to the surface unless we juxtapose the required growth rate for foodgrain output with that required for the cash crops.

Poor Growth of Cash Crops

Having regard to the fact that the expenditure elasticities of demand for cash crops are around unity or above,

the growth of 3 per cent per annum in the per capita expenditure would imply a growth rate of around 5.5 per cent per annum in the demand for cash crops. However, whereas the need is for achieving for cash crops a much higher growth rate of output than for foodgrains, what has been happening since the mid-sixties is exactly the reverse of it. While the growth rate for foodgrain output has been about maintained, that for cash crops has suffered a sharp contraction in recent years; the index for the production of cash crops in 1970-71 compared with that for 1964-65 shows an increase of less than 0.5 per cent per annum.

Most Serious in Respect of Fibres

Even at the risk of appearing to sound alarming, I should like to underscore the gravity of the situation in which the growth rate for cash crops has dwindled to less than 1/11th of what would seem to be required by the growth of population and per capita expenditure postulated above. This situation seems to be most serious in respect of the fibres which have registered a considerable decline since 1964-65. This is not entirely without its bearing upon the crisis in the cotton textile industry we have witnessed of late. Instead of providing more employment, it has, during the 1960s, dispensed with at least 60,000 persons employed in it; as against 7,93,000 persons employed in 1961, their number did not go beyond 7,34,000 in the first seven months of 1971. While one may legitimately debate the appropriate weight to be assigned to this industry in the index of industrial production — whose rate of increase has slumped during the first half of 1971 to less than 2 per cent over the index for the corresponding period last year —, and may even derive solace from the comparatively better performance of the small-scale industry which does not occupy a place in the index, the fact remains that man does not live by bread alone. And if we are to pursue our income-employment goals not only the availability of foodgrains, the most important of the wage-goods, has to be enlarged but also a modicum of cloth and other things have to be provided.

It is therefore important to inquire into what lies behind this near-paralysis in the output of cash crops. Since the growth rate of productivity for cash crops seems to have been about maintained, the decline in the growth rate of output appears to be ascribed almost entirely to the loss of area these crops have suffered during recent years. It is true that the average annual rate of increase of the gross cropped area itself has fallen; since 1964-65, it has been around 0.6 per cent per annum. But this is only a part of the story. The other part, no less significant, is that foodgrains have acquired acreage at a faster rate. In the upshot, cash crops have lost acreage to foodgrains not only in a relative sense but also in the absolute.

True, in a consideration of a short period of six years, in which factors like unfavourable weather could well have played a part, the significance of a trend cannot be attributed to this downward drift of acreage, and yet it is difficult to miss the pull of the new technology in transferring acres from cash crops to foodgrains.

Area Shifts

Even though an exhaustive study of area shifts from cash crops to foodgrains with a view to uncovering the factors which lie behind them is a much more ambitious exercise than I have been able to undertake, the selective evidence I may present here is nonetheless instructive. Between the terminal years 1964-65 and 1970-71, the all-India cotton acreage has fallen by about 7.5 lakh hectares of which Madhya Pradesh alone accounts for a little more than 2 lakh hectares. In this state, this acreage which initially shifted to jowar, presumably under the stimulus of a price advantage, subsequently seems to have been moving to wheat with the spread of the high-yielding varieties of seeds. Most of the decline in cotton occurred between 1964-65 and 1968-69 during which period jowar added to its area much more than cotton had lost. Between 1968-69 and 1970-71, jowar lost some 4 lakh hectares while wheat gained 2.7 lakh hectares, the area under the high-yielding varieties of wheat having increased to 2.2 lakh hectares by 1970-71. In Punjab, likewise, the decline of a little less than 1 lakh hectares of area under cotton appears to be connected with the progress of the high-yielding varieties specially of rice, bajra and maize. In some districts like Ludhiana cotton seems to have lost ground to maize, in others like Patiala and Amritsar to maize and rice, and in yet others like Ferozepore to either maize, bajra and rice or to all of them. Since the decline in cotton area is much less than the increase in the area under these several foodgrain crops, it is difficult to be certain as to which ones have attracted the cotton acreage. But this much is clear that in the case of all the three cereals the high-yielding varieties of seeds have made considerable headway.

Groundnut has lost some 3.5 lakh hectares in Gujarat but since it has gained area in other states, the decline in the country as a whole is only a little more than 80,000 hectares. In this state, this area seems to have shifted principally to bajra which has gained about 3 lakh hectares over the same period. Considering the district-wise picture, one finds that in Amreli a decline of 30,000 hectares under groundnut is associated with an increase of 40,000 hectares in bajra; in Broach a decline of 13,000 hectares in the former has accompanied an increase of 17,000 hectares under jowar; in Bhavnagar a loss of 72,000 hectares for groundnut has been matched by an increase of 73,000 hectares under bajra; and in Rajkot a decline of 26,000 hectares under groundnut has been associated with an increase of 21,000 hectares under bajra. In Gujarat, the high-yielding varieties of bajra have made an impressive headway, the proportion of the total area under the cereals covered by the high-yielding varieties in 1970-71 being a little over 30 per cent.

Jute too seems to have lost acreage, although moderately. A significant part of this decline has taken place in Bihar mostly in the districts of Purnea and Saharsa; in the former, jute has lost some 16,000 hectares while autumn-rice has gained about 27,000 hectares and in the latter, jute has lost about 5,000 hectares whereas autumn-rice has gained 9,000 hectares. Here too, the high-yielding varieties of rice grown in the autumn season have made a considerable headway.

Only Solution

The above evidence, though not conclusive, is yet suggestive of the fact that the higher profitability associated with the high-yielding varieties of seeds in the case of crops where they have yelded successful results has been a factor behind the suction by foodgrains of cash crop acreage. In saying this, I am not criticising the new technology. After all, it is not the fault of the new seeds that a technology breakthrough has not simultaneously occurred across the board. I am quite aware that science cannot be ordered about to produce the desired results precisely when they are needed. Nevertheless, when a technological breakthrough in one segment transmits its ripples to the others, the emerging imbalances have to be corrected.

The only satisfactory solution of the problem lies in matching a technological advance in one segment with like advances in the others. Except for some success in evolving high-yielding varieties of cotton, among which Hybrid-4 occupies the pride of place, there is little that offers any hope of achieving a sizeable step-up in the growth rate of cash crop output in the near future through a spurt in their per hectare productivity. There are of course measures each of which singly can produce only a modest result, but which, taken together, can contribute to a significant increase in per hectare yields. While these have to be pressed into service to produce the maximum they can, it would be difficult to expect that a reliance on these measures alone would push up the growth rate of productivity for cash crops from the present 1 per cent per annum to more than 1.5 to 2 per cent annually. It follows that till so long as a technological breakthrough in the case of cash crops does not occur, the larger part of the step-up in the growth rate of their output will have to be achieved through an expansion in their cropped acreage.

Disconcerting Aspect

A growth rate of 5.5 per cent per annum for the output of cash crops would then require an addition of some 20 to 25 million hectares to the area sown to these crops over a decade. It is in this context that the recent phenomenon of area shift from cash crops to foodgrains acquires a disconcerting aspect. Here it needs to be recalled that since the possibilities for the extension of net sown area appear to have very largely exhausted themselves — the Fourth Plan target for the reclamation of land being a meagre 1 million hectares over a 5-year period — the expansion of gross cropped area has to be achieved for the most part through a rapid increase in cropping intensity. The possibilities of achieving this increase have, of late, brightened as a result of a considerable improvement that has occurred in the efforts to enlarge the irrigation facilities through minor and major irrigation projects. The annual addition made to the net irrigated area between 1967-68 and 1970-71, estimated at an average of nearly 2 million hectares, equals what was being added over 5-year periods between 1950-51 and 1965-66. But at this rate and on the assumption that the entire additional irrigated area yields, on an average, an extra crop a year, an accretion of some 20 million hectres would be made to the present 165 million hectares of gross cropped area over a decade.

Thus, unless performance in this respect is further improved upon, even if the growth rate of productivity for cash crops is stepped up to 2 per cent per annum, the entire addition made to the gross cropped area will need to be assigned to cash crops if their output is to be made to increase at around 5.5 per cent per annum. This is tantamount to saying that the entire burden of accelerating the growth rate of foodgrain output, nay even of maintaining it, will have to be borne by the growth rate of their per hectare productivity. The index for the productivity of foodgrains for 1970-71 compared with that for 1964-65 shows an increase of a little less than 2.5 per cent per annum. The attainment of a growth rate of 3.5 per cent per annum in the output of foodgrains would thus call for a 50 per cent step-up in the recently observed rate of increase in their productivity. This then is a rough indication of the task that awaits us on the foodgrain front.

While assessing our achievements in this segment, therefore, we will do well to remember that if foodgrain output has been able to maintain its growth rate, this itself it has done by throwing at least a part of its incidence on cash crops through a suction of their acreage. And this is because a real breakthrough in per hectare yields has so far been confined to wheat. While bajra and maize have maintained the growth rates of their per hectare yields, of rice and jowar even this cannot be said.

Incidence on Pulls

In fact, the pull of the cereals in drawing area away from other crops has not been confined to cash crops; a good part of the incidence has fallen on the pulses. This has given rise to another imbalance — an imbalance between cereals and pulses within the foodgrain basket. Of the 4.5 million hectares which wheat has added to its area between 1964-65 and 1970-71, over one million hectares has come from gram alone. In Punjab, an increase of over 6 lakh hectares under wheat has been associated with a decline of nearly 4 lakh hectares under gram; in Haryana, an increase of about 4 lakh hectares under wheat has taken place along side of a decline of more than 2.5 lakh hectares under gram; and in Uttar Pradesh, an increase of 19 lakh hectares under wheat has accompanied a decline of 5 lakh hectares under gram. The decline in the area under all pulses is larger.

It may here be mentioned that area was shifting from gram to wheat under the stimulus of irrigation expansion even before the high-yielding varieties of seeds had emerged on the scene; the greater profitability of the high-yielding varieties of wheat has only reinforced the process. The implication of the decline in the output of pulses for the supply of protein from foodgrains becomes obvious if we translate foodgrain output into its protein equivalent: the compound growth rate of foodgrain output measured in terms of proteins is significantly lower at 2.97 per cent per annum for the period 1949-50 to 1970-71 than it is at 3.33 per cent per annum for the period 1949-50 to 1964-65. Pulses being a relatively cheaper source of proteins, a rise in the ratio of their prices to those of cereals consequent upon a decline in their output has cast its obvious incidence on the poorer stratum of the community.

Wheat-Rice Imbalance

We have at present no high-yielding varieties of pulses; current efforts are focused on evolving short-duration varieties which it should be possible to raise as catch crops. Advances in this direction, however, need to be vigorous enough to not only offset but more than offset the continuing downward drift in the acreage under pulses. Further, these require to be supplemented with a positive policy of encouraging the production of pulses in regions of low irrigation potential as, for example, Madhya Pradesh.

Another imbalance introduced by the technological lag belongs within the cereals basket, crucially manifesting itself in the disparate performance of rice and wheat. Here it may be mentioned that the high growth rate of wheat output since 1964-65 has so far been sustained in part by the possibilities provided by the displacement of imported wheat and the requirements of building a buffer of the requisite size. Now that the Fourth Plan target for the buffer stock of foodgrains has been realised and the import of wheat has come to a stop, the production of the cereal would have to be sustained principally by the growth rate of domestic demand for wheat. Even if the expenditure elasticity of demand for wheat be rated at around unity, the growth rate of population at 2.2 per cent and of per capita expenditure at 3 per cent per annum

can produce a growth rate of demand for this cereal only moderately exceeding 5 per cent per annum. Thus, unless the relative price of wheat is allowed to drift downward, the system may not absorb the production of this cereal much in excess of this rate. Any attempt, then, to support the prices of this cereal at an artificially high level will show itself either in a progressively increasing stockpile of wheat or will seek for it an export outlet. Since, given the ruling international prices for this cereal, domestic wheat cannot be exported without a sizeable subsidy, the feasibility as well as the desirability of this course of action will have to be properly assessed. The building and carrying of a progressively rising stock of wheat is, likewise, a costly operation and it would be neither desirable nor possible, to undertake it on a continuing basis. Considering now the further fact that the expenditure elasticities of demand for coarse grains are either negligible or negative so that the demand for these cannot be expected to grow much in excess of the growth rate for population, it becomes clear that for improving upon the growth rate of foodgrain output, in fact even for maintaining it, a breakthrough on the rice front is an immediate necessity.

Massive Effort Required

In this connection, it is encouraging that a new range of high-yielding, slender-grained, disease-resistant dwarf varieties of rice with good cooking and milling qualities is on the way. This certainly is a major development. But now that this technological advance has to be translated into production performance on the farmers' fields, one has to emphasise such other problems as water control and management without a satisfactory tackling of which the promise of these seeds may not be adequately realised. A massive effort in this direction is now required. The large potential for irrigation existing in the ground water resources especially of the Indo-Gangetic belt has to be exploited at a much faster pace than has been the case so far. This will not only help accelerate the growth rate for the production of rice but also enlarge the much needed employment opportunities, through the building of infrastructure as well as raising the cropping intensity, in the densely populated eastern part of the country. The fact that, with its potential for irrigation, this region is likely to figure prominently in a breakthrough in rice output when that occurs is of great significance. For it will help reduce regional disparities in incomes or at least moderate possible tendencies towards an increase. The context invites attention to the high degree of regional concentration which has characterised the increases in foodgrain output in recent years, over two-thirds of the increase in 1969-70 over the production in 1964-65 having been contributed by three states alone, Haryana, Punjab and Uttar Pradesh. And even though the share of these states in the increase in foodgrain production in 1970-71 over that in 1964-65 dropped to half of the total primarily because of a sudden spurt in production in Rajasthan, if we exclude this last as it was for the most part inspired by favourable weather, the geographical pattern of the more enduring component of the increase would not be far different from that for the preceding year. While every credit is due to these states which have performed so impressively, there is no gainsaying that other states and regions too have to be lifted and most of all such pockets of concentrated poverty as, for example, eastern Uttar Pradesh, Bihar and Orissa.

Problem of Rice

This then is a part of the vista which the possibilities of improvement on the rice front are tending to unfold. But if I may be pardoned a digression into what is perhaps a premature speculation into the somewhat distant future, I should add that these possibilities carry with them a problem too — a problem that resides in the modest expenditure elasticity of demand for this cereal. The expenditure elasticity of demand for rice is about half of what it is for wheat. This is partly because there is a much wider range of varieties for rice than for wheat so that even though the elasticity for a given variety may be high, for all varieties taken together it tends to be low. In part, it is also due to the fact that in many of the rice producing areas, rice being the only cereal or overwhelmingly the most important of the cereals grown, it has over time made for a certain specificity in the preferences of the population in these regions in favour of rice. In the wheat tracts, on the other hand, alternative cereals being relatively more important in the cropping pattern, the substitution between these and wheat becomes easier at the level of consumption. Be that as it may, the fact remains that this being the situation, the demand for rice cannot be expected to grow at the rate at which the demand for wheat has increased. Should a vigorous process of expansion overtake the production of rice in the coming years, then, given the limited possibilities of the export outlet, the growth rate of its output could hit against the barrier set — at a lower level than that for wheat — by the growth rate for the demand for rice. The possibilities for the diversification of the production basket in the rice tracts would therefore need to be explored well in time for facing this problem in the longer-term context. In the case of wheat this problem has already arisen.

Reducing Unit Costs

And in respect of the coarse grains, it is likely to assume a severer edge even before it happens in the case of rice, for it bears on the income levels of the already poor cultivators in the dry farming tracts. The low or negative expenditure elasticities of demand for coarse grains merely reflect the fact that with rising real incomes of the people, these will increasingly get pushed into the category of 'inferior goods'. An appropriate technology for the regions of dry farming, then, has not merely to focus on making the farms there economically viable but on reducing the unit costs of production of these cereals — possibly through the route of mechanisation in, say, the semi-arid tracts — so as to enable their increasing utilisation as cattle feed. Side by side, ways would need to be devised to help some of the cash crops, like cotton and groundnut, to hold their own in regions of dry farming where they presently predominate. In respect of rice, in contrast, the problem of diversification is likely to prove more intractable in the deltaic regions where rice is 'perhaps about the only crop that can be grown, if the solution is sought within the framework of crop husbandry.

In referring to these problems of the medium and the longer-run, it would be pretentious on my part to imply that I have their answers — answers that we may wait upon collective work and wisdom to supply. And I would be sorry indeed if a reference to these problems were to generate any sense of complacency with regard to the tasks that immediately await us on the foodgrain front.

A Strategy for Dry Land Agriculture

N S Jodha

In the wake of the green revolution, the regional disparities in the farm sector threaten to get accentuated. The factor endowments of the regions vary vastly and so also their capacity to take advantage of the new technology which has ushered in the green revolution. The dry areas, in particular, stand automatically neglected under the country's new strategy with its bias for areas with assured water.

Even in the past (i e, prior to the HYV programme) the dry areas suffered relative neglect because the agricultural production programmes, basically evolved for well watered areas, almost completely disregarded the problems and potential of the dry areas. Consequently, while agriculture in other areas developed fast, its performance in the dry areas showed gradual decline.

The present paper illustrates the above situation with respect to the arid region of Rajasthan which covers nearly three-fifths of the state. After examining the growth retarding implications of the present approach, it argues that a meaningful development strategy for the dry areas can be evolved only in the context of the limitations and potentialities of the dry lands.

A tentative approach has been suggested which emphasises production activities in which dry lands have a comparative advantage vis-a-vis *other areas.*

[The author is grateful to M D Desai and D S Tyagi for their valuable suggestions while preparing this paper.]

THE arid region of Rajasthan covering eleven north-western districts and spread over nearly 3/5ths of the state accounts for 62 per cent of the total (nearly 3,17,090 sq kms) arid area (excluding the cold desert of Ladakh) in the country. The agriculturally relevant natural factor endowment consists of extremely low (5" to 20") and erratic rainfall (effectiveness of which is further reduced because of factors like desiccative winds); largely sandy soils (with low fertility status and high soluble salts content) which are highly susceptible to erosion when deprived of needed plant cover; generally brackish or saline subsoil water at depths as low as 500 metres in some places; low and sparse vegetation mainly consisting of drought hardy shrubs and perennial grasses like sewan (*lasiurus scidicus*) which sustain the livestock economy of the region.[1]

On the basis of details about soil, vegetation and water resources, soil scientists, agronomists and conservation experts have assessed the use capabilities of lands in different parts of the region. Accordingly, nearly 79 per cent of the lands scattered in different parts of the region can be put under classes VI and VII (according to the FAO use-capability classification of land for conservation purposes), which are suitable only for pasture and range development. Any attempt to increase their use intensity (through crop cultivation) would not only reduce their production potential (in terms of forage) but would expose them to severe erosion hazards. Further, because of obvious limitations, these lands cannot ensure stable crop production on a sustained basis.[2]

II

Present Approach and Its Consequences

Despite the arid lands' natural unsuitability for intensive use (e g, by putting submarginal lands under the plough), all the conscious and unconscious efforts to raise farm production in the past have completely ignored this fact. Consequently, actual use intensity has exceeded the limits set by the natural principles of land use.[3] Some of the factors responsible for extension of ploughing of sub-marginal lands have been the subsistence character of desert farming (in which exclusive livestock farming, favoured by the natural principles of land use, does not fit); declining land-man and land-animal ratios (making higher use intensity of land unavoidable); divergence between private and social cost (in terms of resource depletion) of increased use intensity of sub-marginal lands (making the private operators indifferent to conservation needs).[4]

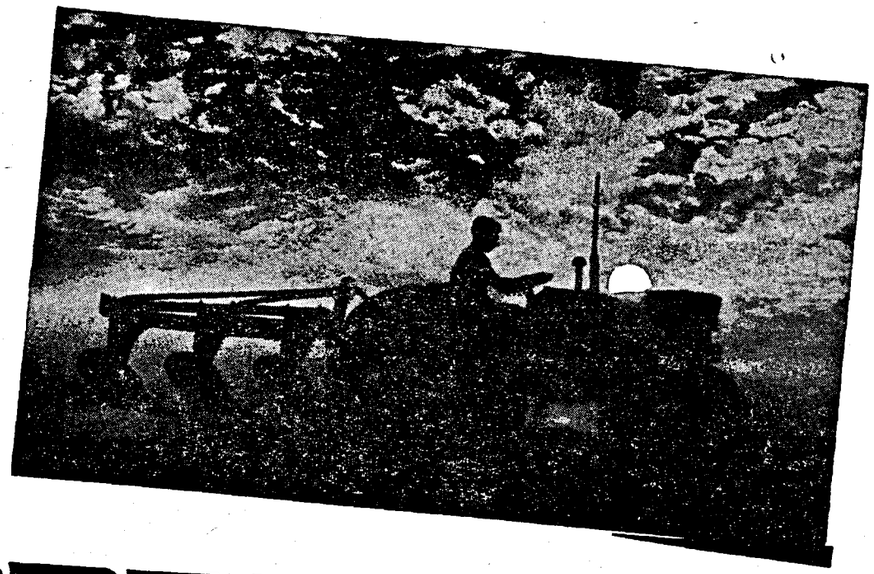
The surprising fact is that the process appears to have been accentuated since the adoption of development planning in the state. In the absence of programmes specifically evolved keeping in view the limitations and potential of arid lands and non-applicability of programmes evolved for other areas, 'addition to crop acreage' (through transfer of sub-marginal lands from 'grazing' to 'cropping', indicating more intensive use) has been the main plank of the development efforts of the government — from the grow more food era to the present day — in the arid region.[5]

The above fact is corroborated by Table 1 which presents three-yearly moving average (to eliminate the impact of annual fluctuations) of area under relevant categories of land use. The area under the categories indicating lower intensity of land use (e g, current and old fallows, culturable waste, barren and waste lands)[6] has been gradually declining. On the other hand, in the case of the category involving a higher degree of use intensity (i e, net sown area), the area has increased from 53 to 77 lakh hectares (more than 45 per cent) during the last 15 years.

The use intensity of arid lands has increased not only because of transfer of land from one use category to another. Even in the case of use categories connoting a lower degree of use intensity (e g, fallow lands, pastures, culturable waste lands, etc, used for animal grazing) the actual use intensity has exceeded the natural limits, because of the very high stocking rate. Both because of the increased animal population and the shrinkage of grazing space, the number of animal units per 100 hectares of grazing lands has increased from 36 in 1951-52 to 48 in 1956-57, to 62 in 1961-62 and to 67 in 1965-66,[7] indicating a stocking rate much higher than the carrying capacity of grazing lands.

Declining Crop Productivity

Increased use intensity of land by ensuring favourable shifts in the production possibilities of land has accelerated agricultural growth in different parts of the world.[8] But in the arid region, the indiscriminate addition to the area under the plough, without



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the required improvement in technology, has spelt declining trends in physical productivity of principal crops (see Table 2), and deterioration in the natural resource base of the region because of unscientific use.[9] Table 2, which presents indices of three-yearly moving averages of acreage and yields of principal crops of the region, indicates the increasing trend of area under all the crops, but the indices of yields show declining trend in the case of bajri, jowar and sesamum (jointly covering more than 70 per cent of gross cropped area).[10] This is an obvious consequence of gradual extension of ploughing to sub-marginal lands during the period under question, and may be described as an indicator of operation of the law of diminishing returns on extensive margin.

An even more serious consequence of the unscientific use of arid lands (both by over-grazing and ploughing) for a long time in the past has been the disturbance of the ecological equilibrium of nature, adversely affecting the availability of usable soil, vegetation and water resources of the region.[11] This may be regarded as an indicator of the operation of yet another variant of the secular law of diminishing returns, which could be described as the law of increasing natural resource scarcity.[12]

The reduced physical availability of natural resources is indicated by the growth of waste lands resulting from removal of top soil or submersion of fertile lands under shifting sand dunes[13] or conversion of fertile lands into patches of saline waste lands in the low lying areas near the seasonal streams;[14] drying up of dug wells or increased salinity of well waters;[15] replacement of superior perennials by inferior ones or annual grasses (including non-edibles) in the grass lands,[16] and increased population of 'malformed' or 'stunted trees' in the different parts of the region.

TABLE 1: LAND UTILISATION IN THE ARID REGION OF RAJASTHAN
(Three yearly moving average, 1951-52 to 1965-66)

(Area in 000 hectares)

Years	Net Sown Area	Current Fallow	Old Fallow	Culturable Waste	Uncultivable/Barren Waste
	1	2	3	4	5
1951/52-1953/54	5365	1490	2644	5255	3853
1952/53-1954/55	5522	1479	2886	5100	3548
1953/54-1955/56	5614	1594	2818	4850	3259
1954/55-1956/57	5981	1672	2814	7678	2898
1955/56-1957/58	6302	1722	2788	4515	2716
1956/57-1958/59	6556	1736	2786	4378	2587
1957/58-1959/60	6737	1568	2870	4229	2547
1958/59-1960/61	6964	1488	2702	4146	2525
1959/60-1961/62	7267	1399	2466	4115	2489
1960/61-1962/63	7377	1469	2293	4137	2500
1961/62-1963/64	7414	1464	2252	4133	2531
1962/63-1964/65	7545	1382	2211	4111	2534
1963/64-1965/66	7691	1318	2074	4046	2583

Note: During 1951-52 to 1953-54, area under categories (1), (2), (3), (4) and (5) constituted 27.98, 7.77, 13.79, 27.41 and 20.10 per cent, respectively, of total geographical area. The corresponding percentages during 1963-64 to 1965-66 39.83, 6.83, 10.74, 20.96 and 13.38 respectively.

Source: Calculations are based on district-wise land utilisation figures from (1) Directorate of Land Records, Board of Revenue, Government of Rajasthan (for 1951-52 to 1955-56) and (2) *Statistical Abstracts of Rajasthan*, for rest of the period.

III

The Alternatives

The preceding description suggests that the development strategy for arid agriculture should address itself simultaneously to the twin problems of resource conservation and sustained growth of farm production. Here one could think of broadly two approaches.

(1) Continuation of the present approach with emphasis on crop farming after incorporating needed technological changes in the farming; and,

(2) Adoption of a strategy which deemphasises crop farming and encourages livestock farming.

Since the twin problems of resource depletion and declining crop productivity are largely a consequence of enhanced intensity of land use unaccompanied by necessary technological change, the present approach (with emphasis on crop farming in arid lands) can be profitably continued provided suitable technological changes are incorporated in the farming system. This technological change in the present context can take two forms: (i) provision of irrigation facility; and (ii) adoption of soil-moisture conservation measures.

Assured water facility can be the surest remedy for the problems discussed above and can serve as the quickest means for transformation of arid agriculture, as illustrated by the development of the Ganganagar district after the opening of the Gang Canal. However, this alternative is not available to most parts of the region in the foreseeable future.[17]

CONSERVATION FARMING

The massive import of conservation technology which can reduce the waste of usable moisture and can ensure its efficient utilisation is the second best alternative to raise crop productivity in the dry region. Some of the conservation measures like shelterbelts, micro-wind breaks, bunding, mulching, etc, have been experimented with by the Central Arid Zone Research Institute (CAZRI) and have also been adopted by some farmers. No quantified information about their resource conservation effect is readily available. But their contribution to crop production (even during low rainfall years) has been recorded. A part of the relevant information has been presented in Table 3, Part A. If the limited evidence presented in Table 3 Part A is any indicator, crop productivity in the dry lands can be improved by making conservation technology an integral part of the farming system.

But despite the favourable shifts in production functions brought about by conservation technology, the latter can neither compete with superior technology (e g, the one incorporated in the HYV Programme) in raising farm productivity to the extent witnessed in wet regions of the country nor can it substantially improve the arid region's natural position of comparative disadvantage *vis-a-vis* other areas raising the common crops.[18] Hence in an open economy, where different farming areas with varying pay-off potential (due to variations in resource endowment and hence agricultural programmes) compete for scarce resources, the claims of arid agriculture (despite adoption of conservation technology) may not get enough support, unless some other considerations (e g, need for reducing regional disparities, etc,) happen to inform investment decisions.[19]

This calls for an agricultural strategy which would encourage production lines capable not only of making efficient use of deficient natural resource base of the region but also of imparting comparative advantage to the arid region *vis-a vis* other areas. The second approach (de-emphasising crop farming and encouraging livestock raising) mentioned earlier would probably fulfil the above requirements better.

The natural suitability of the region for pasture-based livestock farming is clearly indicated by the fact mentioned earlier that nearly 79 per cent of the land in the area is suitable only for grass raising. Availability of natural perennial desert-grasses like sewan on one hand and excellent breeds of sheep and cattle well adopted to arid conditions[20] on the other, further strengthens the case for livestock farming in the arid region.

The possibility of substantial increase in the productivity of grazing lands through conservation measures (see Table 3 Part B)[21] and greater scope for economising use of the scarcest commodity (i e, water) in the dry areas (through stock-watering facility rather than irrigating the thirsty patches of dry lands) are the other factors which support the new approach suggested above.

Comparative Advantage

Yet another factor supporting this approach is the comparative advantage which an arid region can acquire by specialising in livestock farming. Precise calculation of comparative advantage is not possible in the absence of details about the complex of factors affecting demand and supply conditions in the competing regions. However, a broad indication of the situation may be given by the relative position of the basic factors which are relatively permanent and fixed and represent the resource endowment of a region and which, by giving rise to variations in the production opportunities and in the character of supply schedules, play a more pronounced role in determining the comparative advantage of a region with respect to particular products in the long run.[22]

In the case of the arid region of Rajasthan, the basic factors having relative permanency and fixity are those which tend to make stock raising the most suited farm activity in the region. This very fact of the 'natural suitability' would impart comparative advantage of livestock farming in the arid region over animal husbandry in the other areas.

Firstly, the factor proportions involved in pasture-based stock raising (involving high land-animal ratio) are quite different from the factor endowment of well-watered areas having high crop intensity. Secondly, even when the production efficiency of some animal enterprises (e g dairying) is high in well-watered areas, their ratio of advantage would not appear attractive if the high opportunity cost in terms of sacrifice of crop farming whose production efficiency (especially due to the HYVs) would be much higher, is taken into consideration.

Factors operating on the demand side would also strengthen the case for livestock farming in the arid region. In view of the near self-sufficiency in cereal production in the country, the demand factor henceforth would tend to put a lower premium on foodgrains as compared to animal products. This will be more so in the case of the arid zone's principal crops, *viz*, bajri and jowar, which are 'inferior products' and are likely to face low and declining consumer preference.

Practical Implications

Thus the factors discussed above suggest that livestock based specialised farming would prove a more meaningful strategy for development of the arid region. But this regional specialisation in livestock farming would, in a way, mean transformation of a subsistence agriculture into an agriculture characterised by commercialised dairy farming. And to the extent specialisation proves incompatible with the traditional subsistence orientation of farming, the transformation indicated above would face several problems, particularly at the farm level.

Two key problems which one could conceive of in this connection are: (i) the farmer's resistance to bringing crop lands back under grass, and (ii) the farmer's non-acceptance of stock raising (dairying or sheep farming) as a substitute for crop raising, unless through some mechanism he is assured of his subsistence needs even after reducing the scale of, or completely giving up, crop farming. In a way, these are two facets of the same problem.

With respect to above problems, it may be noted that in view of (a) the presence of patches of lands suited to crop farming even within the driest tracts, and (b) the absence of any other alternative to exploitation of sub-marginal lands to satisfy foodgrains requirements in the short run, complete transfer of crop lands to natural grasses would be both impracticable and unwise for quite some time. Hence livestock farming with restricted cultivation could form a suitable pattern.[23] Inclusion of perennial grasses in the regular cropping pattern and increased emphasis on leguminous crops (e g, pulses most suited both to land and the livestock economy) can also make the land use pattern more conducive to livestock farming.

However, in the ultimate analysis the process of transformation can be accelerated if livestock-raisers are assured of a ready market for their products. Another equally important factor conducive to a shift from crop farming to livestock farming is the provision of drinking water for animals (which would be certainly less expensive and more easily manageable, even through the lift system, than irrigating the dry lands) for minimising the seasonal fluctuations in livestock production and reducing the extent of nomadic herding; unless stock-raising is practised in settled conditions, no market oriented activity can develop.

In fact, despite its natural suitability, the economic viability of specialised livestock farming in the arid region would depend on adequate and satisfactory marketing (and drinking water) facility. Marketing arrangements would constitute the basic infrastructure for the new strategy, which the government should create. Given these facilities, other measures, including storage of fodder, improved animal management, etc, would follow, automatically as it were, as illustrated by rapid changes for the better in these respects in some areas of the Bikaner region in which the Delhi Milk Scheme is operating as a regular marketing agency for milk.[24]

TABLE 2: INDICES OF THREE-YEARLY MOVING AVERAGES OF ACREAGE AND YIELD OF PRINCIPAL CROPS OF THE ARID REGION, 1951/52-1965/66

(1951/52-1953/54=100)

Years	Bajri		Kharif Pulses		Jowar		Sesamum	
	Area	Yield	Area	Yield	Area	Yield	Area	Yield
1952/53-1954/55	115.82	101.09	142.82	109.90	104.92	149.59	117.29	116.05
1953/54-1955/56	128.52	100.54	170.31	136.63	118.25	133.33	116.76	104.94
1954/55-1956/57	137.29	97.82	190.19	145.54	115.09	102.44	135.61	96.92
1955/56-1957/58	149.43	95.65	199.14	154.46	115.80	114.63	138.75	89.51
1956/57-1958/59	157.25	96.74	190.43	158.42	116.85	108.13	158.65	79.63
1957/58-1959/60	147.83	98.37	183.93	156.44	128.43	103.25	176.45	89.51
1958/59-1960/61	159.19	92.39	175.46	151.49	111.59	108.13	183.26	75.31
1959/60-1961/62	165.46	87.50	171.29	132.67	115.45	96.75	197.40	58.64
1960/61-1962/63	173.71	77.72	171.90	141.58	118.60	77.24	206.82	60.50
1961/62-1963/64	170.29	83.69	171.29	148.52	122.46	87.80	201.06	56.17
1962/63-1964/65	168.31	85.32	139.76	176.24	109.48	82.93	196.35	48.77
1963/64-1965/66	179.02	82.06	169.94	159.41	120.36	56.10	205.25	41.36

Note: Bajri, Kharif Pulses, Jowar and Sesamum covered 59.73, 21.34, 4.69 and 5.72 per cent of gross cropped area (average of five years ending 1965-66), respectively. Rest of the area was covered by other (nearly 17) minor crops, whose individual share rarely reached even one per cent of gross cropped area.

Source: Calculations are based on district-wise area and production data of crops from (1) Directorate of Land Records, Board of Revenue, Government of Rajasthan (for 1951-52 to 1955-56) and (2) *Statistical Abstracts of Rajasthan* for rest of the period.

Notes

1 For detailed features of the natural resource base of the region, see N S Jodha and V S Vyas, "Conditions of Stability and Growth in Arid Agriculture", Agro-Economic Research Centre, Vallabh Vidyanagar, 1969, Chapter I.

2 For details see,
(i) Report of the State Land Utilisation Committee, Government of Rajasthan, 1960.
(ii) S P Seth and K N Mehta, "Fertility Survey and Soil Test Summaries of Some Districts of the Arid Region of Rajasthan", *Annals of Arid Zone*, Vol II (1), 1963.
(iii) R N Kaul and D K Misra, "Land Utilisation Problem in Arid Zone and Its Significance in Soil Conservation", *Proceedings of the National Academy of Sciences*, India, Section B, Vol XXXI, Part III, 1961.
(iv) N S Jodha, "Land Policies of Rajasthan: Some Neglected Aspects", *Economic and Political Weekly*, Review of Agriculture, June 1970.

3 Implying utilisation of land according to its use capability, determined by physical and biological phenomena characterising the land. See, E H Graham, "Natural Principles of Land Use", Oxford University Press, New York, 1944.

4 For details, see N S Jodha, "Capital Formation in Arid Agriculture", Ph D Thesis, University of Jodhpur, 1967 (unpublished), Chapter III "Basic Systems of Farming in Arid Agriculture."

5 Other important programmes which could have raised the productivity of arid lands (apart from irrigation for which the scope is apparently limited) are conservation measures and livestock schemes. But the scant attention they have received is indicated by the meagre plan expenditure made on these programmes during 1956-57 to 1967-68 (data for the first five-year plan are not readily available). For instance, of the total plan expenditure in the arid region during the period under review, conservation measures (including forestry) and animal husbandry have received only 2.26 and 2.31 per cent, respectively. For details see, "Conditions of Stability and Growth in Arid Agriculture", *op cit* Appendix III-B.

6 After a gradual decline for many years, area under the category 'barren and waste land' has again started increasing. This is due to land retirement (i e, reverting the sub-marginal crop lands back to natural grass) in drier districts like Barmer, Jaisalmer and Jodhpur. This in a way indicates realisation on the part of farmers of the futility of their effort to increase the use intensity of sub-marginal lands.

7 For other details, see, "Conditions of Stability and Growth in Arid Agriculture", *op cit*, Appendix V-A.

8 Ester Boserup has analysed the whole historical process of agricultural growth in terms of increasing

TABLE 3: PERCENTAGE INCREASE IN CROP AND FORAGE YIELDS DUE TO ADOPTION OF CONSERVATION MEASURES ON (A) CROP LANDS AND (B) GRAZING LANDS

Measures	(A) Crop Lands: Increase in Crop Yields (crops)			(B) Grazing Lands	
	Bajri	Jowar	Sesamum	Measures	Increase in Forage Yield, (dry weight)
(1) Micro-wind break	33.18 (289)	—	—	(6) Contour furrowing	716.49 (1499)
(2) Stubble mulching	29.31 (207)	—	—	(7) Contour bunds	610.73 (2054)
(3) Bunding	72.19 (322)	92.05 (290)	106.89 (150)	(8) Contour trenches	229.84 (1227)
(4) Shelterbelts	86.09 (348)	85.75 (282)	115.52 (168)	(9) Reseeding	90.69 (1413)
(5) Bunding and shelterbelts	124.06 (419)	115.52 (344)	141.34 (195)	(10) Light soil working	28.70 (1953)

Notes: (1) Figures in brackets indicate the actual yield (kg/ha) of treated plots.

(2) Source of data for (1), (2), (6 to 10), are Scientific Progress Reports of the CAZRI for the years 1961-62 to 1964-65 and they represent average of results for 3 to 4 years.

(3) Data for (3 to 5) were collected from 112 farmers' plots in a village in Nagaur district for "Capital Formation in Arid Agriculture", *op cit*. The increase in yields is average of two years 1964-65 and 1965-66, and has been worked out by comparing the treated plots with untreated plots of the same farmers. The substantial rise in yields may not be solely due to conservation measures, but higher use of other inputs like manure and labour. But the higher use of inputs itself was possible because of conservation measures. In untreated plots input use was not only low but some of the inputs like manure were never used in the last 7 years. Yield of crop by-products and top feeds (natural fodder from bushes and trees) was also much higher in the treated plots. For details see, the study cited above.

degree of use intensity of land. Accordingly, shift from forest fallow to bush fallow and hence to short fallow and then to annual cropping and lastly to multiple cropping represented successive stages towards higher degrees of use intensity (accompanied by successive changes in farm technology), giving rise to large favourable shifts in production possibilities of land. For details see, "The Conditions of Agricultural Growth: The Economics of Agrarian Change under Population Pressure", George Allen and Unwin, 1965.

9 Yet another problem caused by the extension of ploughing on submarginal lands (not discussed here), has been the high degree of instability and uncertainty to which crop farming has been exposed. The co-efficients of variation of crop yields in different districts are as high as 59.33, 76.89, 91.85 and 250.32 in the case of Kharif pulses, bajri, sesamum and jowar respectively. For details see, N S Jodha and S D Purohit, "Weather and Crop Instability in the Dry Region of Rajasthan", *Indian Journal of Agricultural Economics*, Vol XXVI (4), 1971.

10 No data pertaining to trend in the livestock productivity are available. But it has been observed that both for the survival of animals and for maintaining their returns from livestock farming, the stock-raisers in the arid region depend increasingly upon the grazing resources of neighbouring regions of Punjab, Haryana, UP, MP and Gujarat, through seasonal out-migration.

11 See
(i) C S Christian, "Report on Organisation of Central Arid Zone Research Institute", Rajasthan, India. UNESCO, South-East Asia Science Cooperation Office, New Delhi, 1959.
(ii) A B Bose, "Impact of Man on Arid Land: Retrospect and Prospect", Symposium on Problems of Indian Arid Zone, Papers, Jodhpur, 1964, (mimeo).

12 The situation in the arid agriculture is somewhat different from the classical model of increasing resource scarcity, because in the latter case a static ceiling on land of uniform quality in the Mathusian case and of graded quality in the Ricardian case, is postulated which, however, does not imply loss of land resources. As against this, the emergence of scarcity of natural resources in the arid zone implies loss of land resources through depletion, resulting from their over-use.
Moreover, modern technology (not foreseen by classical economists) by way of mitigating the potential scarcity has dispelled most of the classical fears, as indicated by a detailed empirical study sponsored by the Resource for Future Inc ("Scarcity and Growth: The Economics of Natural Resource Availability" by Barnett and Morse, 1963). But in the case of arid region there does exist certain evidence indicating the reduced physical availability of land resources. For details, see N S Jodha, "The Scarcity Oriented Growth Pattern of Arid Agriculture", *Indian Journal of Agricultural Economics*, Vol XXI, No 4, 1966.

13 The studies of the CAZRI have shown that in the Central Luni Basin alone (which covers nearly 11,000 sq kms of the region) more than 42 per cent of the area suffers from soil erosion caused by mismanagement of land. The extent of top soil blown off by wind varies from 25 to 100 per cent in different parts of the tract. On the other hand blowing sand particles from the dunes have covered fertile lands and have formed low dunes of 1.5 to 4.5 m height and sandy hammocks of 15 to 90 cm height in different parts of the tract. For details see, B Ghose, S Pandey and S Singh, "Process and Extent of Erosion and Its Effect on Land Use in Central Luni Basin, Western Rajasthan", *Annals of Arid Zone*, Vol 7 (1), 1968. For other details also see, "Accumulation of Desert Sand", *Agricultural Research*, Vol 5 (3), 1965, (ICAR, New Delhi).

14 For conversion of fertile lands into saline patches (in several villages of Balotara block in Barmer District). See, CAZRI, Scientific Progress Report, 1964-65 (mimeo), p 17. Also see, B Ghose, "Salt Basins of the Lower Luni Basin, Symposium on Problems of Indian Arid Zone, Papers, Jodhpur, 1964, (mimeo).

15 In the Jodhpur-Bilara region (traditionally famous for plenty of sweet sub-soil water) nearly 22 per cent of 169 selected wells were found to be suffering from the above problems. See, Rajasthan Ground Water Board, (S and I Scheme), Quarterly Report on Preliminary Geohydrological Survey of Jodhpur-Nagaur Sector, Report S and I, Vol 2, October 1967.

16 On the basis of data collected from different "Range Management and Soil Conservation Areas" spread all over the arid region, the CAZRI has described most of the grazing lands in the region as 'poor' condition range lands, which in turn represent the degraded stages of range lands. Here more than 50 per cent of the plant stand consists of annual grasses; superior perennials are rarely visible. The edible species constitute 25 per cent of the plants, while the plant cover would vary from 0 to 30 per cent. For details, see, M Prakash and L D Ahuja, "Studies in Different Range Condition Class Grasslands in Western Rajasthan, *Annals of Arid Zone*, Vol 3, (1-2), 1964.

17 The irrigated area constitutes just 4 per cent of the gross cropped area in the region and is largely confined to semi-arid tracts. In most of the districts irrigated area is less than one per cent of the gross cropped area. Even after successful completion of the long-delayed Rajasthan Canal Project and harnessing of known potential of ground water in some tracts, more than 80 per cent of the gross cropped area will have to depend on low and uncertain rainfall. For details see, "Conditions of Stability and Growth in Arid Agriculture", *op cit*, pp 37-49.

18 For instance if the yield rate is considered as a rough indicator of the region's comparative position it may be noted that average yield of bajri in the arid region is 169 kg/ha which, even if doubled after adoption of conservation measures, would not compete with yields of bajri (more than 500 kg/ha with traditional seeds and more than 1,200 kg/ha with hybrid bajri seed) in the predominantly bajri growing areas of north-Gujarat. (Source of data, studies of AERC, Vallabh Vidyanagar.)

19 At least in the past mainly because of its poor pay-off potential (and hence less viable and less attractive investment opportunities) arid agriculture has received a very small share of the total plan expenditure in the state. For instance as per the Plan Progress Reports, 11 arid districts of Rajasthan received only 27 per cent of the total plan expenditure on agricultural programmes in the state during 1955-56 to 1967-68.

20 For details of breeds of animals and their productivity, see, "Conditions of Stability and Growth in Arid Agriculture", *op cit*, Appendix VI-A.

21 In an exercise on the basis of input-output data (for four years) pertaining to CAZRI's grass land improvement areas, it was revealed that cost-benefit ratios of two measures, *viz*, re-seeding of rangelands and contour furrowing work out as 1:3.47 and 1:5.02, respectively. For details see, N S Jodha, "Cost-Benefit Analysis of Pasture Improvements in Arid Region of Rajasthan", *Annals of Arid Zone*, Vol 7 (2), September 1968.

22 Sherman E Johnson, "Inter-Regional Competition and Comparative Advantage in Agriculture", *Journal of Farm Economics*, Vol XIX (1), February 1937.

23 The NCAER also suggested such a pattern of agriculture in the dry region of Rajasthan, see, (i) "Techno-Economic Survey of Rajasthan", 1963, (ii) "Land and Livestock in Rajasthan", 1964, New Delhi.

24 For details see "Prospects and Problems of Dairy Development in the Desert Region", AERC, Vallabh Vidyanagar, 1970.

Planning and Implementation of Financing the Area Development Scheme

D K Desai
Hari Prakash

The area approach in agricultural financing was adopted by the commercial banks to overcome their lack of an infrastructure in the rural areas by concentrating on definite regions. At the same time, to develop the necessary expertise and to pool the necessary financial resources for agricultural financing, the banks sponsored the Agricultural Finance Corporation in 1968.

As part of the area approach, the AFC formulated a number of specific schemes to be financed by member banks. One of these was the Minor Irrigation Scheme of the Bihar Relief Committee (BRC). This scheme was an extension of BRC's drought relief work of 1966-67.

This article describes the aims and outlines of the scheme, how the AFC put through the project report to the banks and planned the implementation of the financing, and how the scheme actually progressed.

In the event, the achievements fell far short of the targets — in terms of the number of wells that materialised, the sanctioning and disbursement of funds, and the time taken by the procedures prior to actual construction.

An examination of various case studies traces the failure of the scheme to the marketing of the idea and the demand creation for wells. The article concludes that the major lesson to be learned from this experience of planning and implementation of financing an area development scheme is that it is necessary to obtain proper knowledge of the problems of demand, the administrative bottlenecks of land titles and encumbrance certificates, and the farmer's motivation and attitudes towards risk-taking at the micro-level. Efforts to develop the infrastructure first and then to begin to understand the problems of the micro units in the area become a costly affair.

AFTER entering the field of agricultural finance, it was realised by commercial banks that, because of organisational constraints, they would have to adopt an area approach in direct financing. This was discussed in various seminars and conferences. In the Workshop on Financing Agriculture, held at the Indian Institute of Management, Ahmedabad, in September 1969, and organised by the National Institute of Bank Management, one of the conclusions arrived at was that intensive agricultural financing in selected areas would lead to substantially higher contribution by banks to the financial needs of agriculture within a short span of time. Also, intensive operations in selected areas would enable the banks to support the financing programme with the required technical staff. And success in financing selected areas would act as an effective demonstration for not only the banks but also the farmers in adjoining areas.[1]

Several criteria were evolved to select areas for intensive financing. 'Village adoption' was one of the strategies in the 'area approach' for intensive financing.[2]

I
Area Approach in Financing Agriculture

It must be noted that the strategy of Intensive Agricultural District Programme (IADP) is basically a strategy of area approach. When government adopts such an approach, it has many ramifications. Sometimes it conflicts with the objective of balanced regional growth and with equitable income distribution. Looking to the results of the Intensive Agricultural District Programme in India, one may question the advisability of agricultural development through concentration of developmental efforts in selected areas.[3] Yet, at the level of the firm, when the resource constraint is a major consideration, choosing the alternative of a concentrated effort in selected areas, against the alternative of spreading the effort too thinly over extensive areas, is of vital importance. And the commercial banks, which did not have a developed infrastructure to take up the problems of agricultural financing in extended areas, deliberately chose the area approach in the early years — with a view to gaining experience in agricultural financing and making an impact.

II
AFC and Area Approach

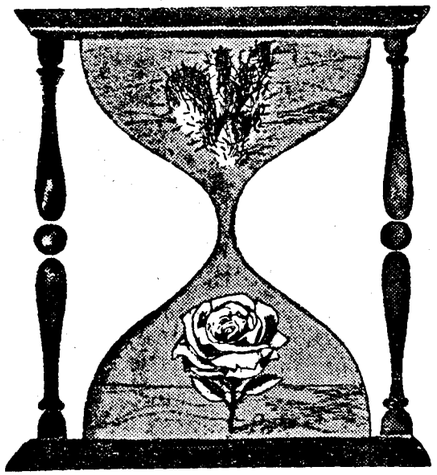
After social control was imposed on the commercial banks, a new directive was issued that banks should make special efforts to finance the priority sectors, such as agriculture, small-scale industries, and exports. Till then, the commercial banks had not financed agriculture in a big way. Lack of expertise to develop the knowhow for financing big agricultural projects was a major hurdle. To develop such expertise and to pool the necessary financial resources for major agricultural projects, a new organisation called the 'Agricultural Finance Corporation' (AFC) was sponsored by the commercial banks in 1968.

Adopting the area approach, the AFC formulated a number of specific schemes. One of these was the Minor Irrigation Scheme (MIS) of the Bihar Relief Committee (BRC).[4]

III
BRC's Minor Irrigation Scheme

The Bihar Relief Committee (BRC), a voluntary organisation, was founded in 1966 under the chairmanship of Jaya Prakash Narain to organise relief works during the drought of 1966-67. Of the several relief measures organised by by BRC, the major programme was to tap underground water by installing *tubewells*. Several *tubewells* were constructed by BRC during 1966-67, on an emergency basis. Having gained experience in installing tubewells, BRC thought that tubewell construction

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EXHIBIT 1: SALIENT FEATURES OF MINOR IRRIGATION SCHEME OF THE BIHAR RELIEF COMMITTEE

		Cost of the Work (Rs 000)
Type of Work		
Tubewells	4,455	2,48,00
Open boring in wells	9,271	85,00
Surface percolation wells	8,769	2,50,00
Diesel engines fitted on boats	70	8,00
1-1/2 inch shallow tubewells with hand pump	200	30
Electric motor pumpsets	15,000	3,50,00
Pump houses	15,000	4,00,00
Persian wheels	7,000	49,00
Cost of 25 million square feet of lined channel		5,00,00
Cost of energising pumpsets	20,000	6,00,00
		24,90,30
Working Capital		
For net area of 1,00,000 acres to be irrigated from the above works —Rs 1,000.00 per acre		
A provision* of working capital for 1,50,000 acres of the existing irrigated area in BRC centres		10,00,00
		15,00,00
Total Requested		49,90,30

* When the break-up of the scheme was prepared centre-wise, it was realised that there may not be a rapid absorption of working capital as proposed. Hence, this provision was dropped from the scheme. Hence the total capital required came down to Rs 34.90 crores.

Source: Agricultural Finance Corporation.

should continue even after the relief programmes were over. A decision on this was taken in June 1967. It was decided to concentrate on boring tubewells in areas where there was assured underground water but which were also frequented by droughts.

AFC obtained information from BRC and also collected other necessary data to prepare a project proposal involving nearly 4,455 tubewells, 8,769 surface percolation wells, and 9,271 open bores in wells with a command area of 2,50,000 acres. The financial requirement for this amounted to Rs 50 crores. In preparing the project report, AFC took care to consider problems of technical feasibility and took help from the Minor Irrigation Department and other agencies.

BRC itself set up 17 centres, spread over 13 districts, to execute the programme of tubewell irrigation. It consulted the State Minor Irrigation Department and also the Geological Survey of India for ascertaining the underground water resources of these districts. In addition to construction of tubewells, other programmes — of open bores in surface percolation wells, of digging surface percolation wells, and of energising wells — were taken up. Each centre was given a target of work in each of these programmes. The targets were fixed with a view to developing irrigation facilities to reach 60 per cent of the irrigable area. Exhibit 1 gives details of the financial outlay of the total programme, and Exhibit 2 gives the list of selected districts and centres along with the financial allocation for each centre.

IV

AFC's Strategy

Planning: In the beginning, BRC started to execute its programmes on a smaller scale, with the help of the Land Development Bank. It obtained a subsidy, for the farmers, from the state government. However, government vacillated in its policy on subsidy, and made frequent changes in the rate of subsidy. This affected the planning of the BRC project. At the same time, the Land Development Bank would not meet the demand of the bigger programme which BRC wanted to undertake, and would not act expeditiously. It was in the circumstances that the chairman of BRC contacted the chairman of AFC. The Managing Director of AFC went into the details of the proposal, and after preliminary scrutiny of the work done by BRC, prepared a project report for BRC and recommended it to the AFC Board.

The AFC circulated the BRC project report among its member-banks to get their reactions. At the same time, it started work on the operational details and began to scrutinise the economics of the total project. The sequence of AFC's operations was as follows :

(i) In October 1969, AFC convened a meeting of the representatives of the member-banks and explained to them the whole project in detail. The member-banks agreed to participate in the financing of the project and communicated the financial contribution they would make towards the execution of the project. This was modified in April 1970 when the detailed break-up of centre-wise allocations was worked out (Exhibit 3).

(ii) After getting the consent of the member-banks, AFC undertook the work of getting the individual farmers' applications ready so that the banks could sanction loans without much difficulty through their infrastructure.

(iii) Towards this end, the AFC took the following steps :

(1) Contacts with state government officials were established and arrangements were made (a) to strengthen the technical competence of BRC to execute the programme and (b) to remove procedural bottlenecks.
(2) Arrangements were made to get government orders issued to the officials, to expedite issuance of possession and non-encumbrance certificates.
(3) Efforts were made to get exemption, for the commercial banks, from the operation of the protection under the Tenancy Act given to certain classes of tenants for execution of simple mortgages.
(4) The state government extended its facility of creating equitable mortgages, by notifying several towns under section 58(f) of the Transfer of Property Act.
(5) Concessional stamp-duty was obtained for the registration of mortgage deed.
(6) The Bihar Electricity Board was approached to request co-ordination of its work such that the tubewells which were approved could be energised immediately.
(7) A guarantee was obtained from the state government that it would reimburse the BRC if a tubewell failed because of non-availability of underground water.
(8) The Minor Irrigation Department was to certify such failures, and BRC could be reimbursed on that basis. The Minor Irrigation Department was to check a sample of 5 per cent of the total number of tubewells to ensure that tubewells were in places where there was underground water available.
(9) A high-level implementation committee was constituted to ensure co-ordination between BRC and the state government.

(iv) The government of Bihar, in collaboration with AFC, organised a seminar in December 1969 to study the broader problem of agricultural finance by commercial banks in the state. Attention was focused on the financing of the BRC project. In February 1970, a workshop for bank agents was organised by AFC to train them in the implementation of financing the BRC project. Another workshop was organised in April 1970 by AFC to train BRC workers in the same way. After the workshop, a set of common procedures and guidelines was evolved so that the participating banks would not find it difficult to sanction individual loans.

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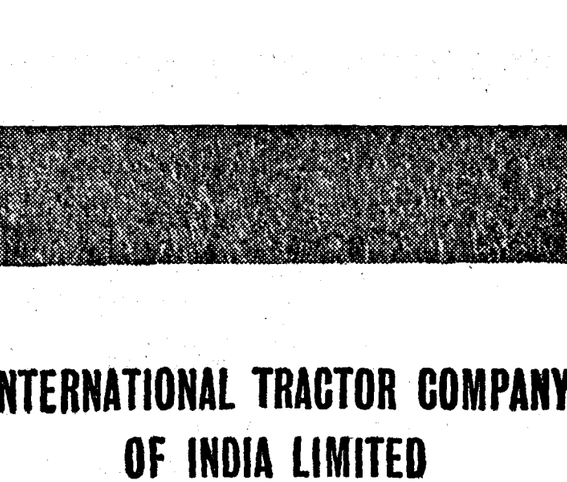


EXHIBIT 2: LIST OF THE BIHAR RELIEF COMMITTEE'S CENTRES

Name of the Centre	District	Amount to be Advanced (Rs)	Branches of Participant Banks
Ekangarsarai	Patna	1,32,41,448	CBI, Bihar Sherrif-Dena, Patna
Ramgarh	Shahabad	1,85,15,170	BI, Dehri-on-Sone, PNB Sasram
Patan-Bishrampur, Daltonganj-Lassaliganj	Palamu	7,14,49,900	PNB, Daltonganj-BI, Dehri-on-Sone
Bhipur	Bhagalpur	1,78,57,070	UCO, Bhagalpur-Allahabad-Bhipur (proposed)
Sarairanjan	Darbhanga	1,72,81,074	CBI, Sarairanjan
Madhubani	Darbhanga	1,34,07,825	CBI, Madhubani
Bhadurpur	Darbhanga	1,65,47,524	UBI, Darbhanga
Asargunj	Bhagalpur	92,90,600	UCO, Bhagalpur
Nanpur-Sitamarhi	Muzaffarpur	2,28,91,250	PNB, Allahabad, BB, Muzaffarpur, CBI, Sitamarhi
Mairwa	Saran	1,32,41,448	CBI, Mairwa
Manjhi	Saran	1,16,87,508	PNB, Chapra
Nawada	Gaya	2,61,45,898	UCO, Gaya, CBI, Nawada, BI, Nawada proposed
Meharma	Santhal Parganas	1,82,05,403	UCO, Bhagalpur
Manihari-Amdabad	Purnea	1,89,10,825	CBI, Manihari
Gogri-Parbatta	Monghyr	1,60,67,859	UCO, Bhagalpur, Union Bank, Gogri-Parbatta
Lohardga	Ranchi	1,40,48,600	UBI, Lohardga
Bagedar	Hazaribagh	3,30,55,920	UBI, Hazaribagh, BI-Gomia BB, Bokaro Steel City
	Total*	35,55,59,480	

* The variation between the total capital required in Exhibits 1 and 2 is due to the fact that while computing the statement in Exhibit 1, the averages for the state as a whole were adopted. In Exhibit 2, the averages for each centre were used for calculating the requirements for the centres.

Source: Agricultural Finance Corporation.

(v) The AFC opened its sub-office at Patna, for implementing the project. It was staffed with (1) one project officer, (2) three field officers, and (3) other supporting staff.

Implementation Procedures Adopted by AFC: According to the original programme, installation of 4,445 tubewells, 9,271 open bores in wells, and 8,769 surface percolation wells were to be completed within two years of the programme being approved by AFC. The strategy adopted by AFC in implementing the plan at the field level was as follows :

The officer-in-charge of the centre of BRC, who was known as 'Kshetra Prabhari', was to explain to the farmers the scheme for financing tubewells and motivate them into accepting the scheme so that they would come forward to apply for tubewells on their farms. The Kshetra Prabhari was a man of influence in the local area, and it was therefore believed that he would be more effective than the government officials in motivating the farmers. After the farmer agreed to apply for the tubewell, he had to give the details for a specific application form. The form elicited information on (a) operational holding, i e, owned land cultivated by the farmer and land taken on lease, (b) the title regarding land ownership, (c) mortage or any other kind of encumbrance on the land, (d) details of co-parceners, (e) assets and liabilities of the farmer, (f) the existing cropping pattern, and (g) the farmer's present income and expenditure.

After the application was received by the BRC centre, the Kshetra Prabhari was required to see that the possession certificate and the non-encumbrance certificate were obtained from the BDO and the Registrar, respectively. After the certificates were obtained, he had to certify the technical feasibility of a tubewell on the farmer's field, after the technical staff of the centre had scrutinised all the details.

Following the technical scrutiny, the application was forwarded to the AFC office at Patna. The project officer at AFC scrutinised the application from the point of view of procedural requirements of title deeds and non-encumbrance certificates. The technical and economic feasibility of a tubewell on the farmer's field were worked out. The project officer sent the applications to the respective branch offices of the commercial banks which had undertaken to finance the proposals from the given centres.

The branch manager scrutinised the application and sent the required documents to be executed by the farmers with the help of the AFC and BRC staff. After the documentation was over, the farmer, the BRC, and the AFC were told about the sanction of the loan.

After the loan was sanctioned, the work order on behalf of the farmer was issued to the BRC centre and the loan amount was then transferred to BRC's account. Thereafter, the BRC centre started the installation of the tubewell and, when the work was over, the tubewell was handed over to the farmer on a turnkey basis. BRC charged 10 per cent of the actual cost of the installation of the tubewell. The commercial banks charged the usual rate of interest, of about 9 per cent, on the loan. The loan was sanctioned for a period of five years. The bank was responsible for recovering the loan.

V

Actual Implementation of Programme

As mentioned before, the original programme was to install 4,455 tubewells, 9,271 open bore-wells, and 8,769 surface percolation wells, and to irrigate a target area of 2,50,000 acres with the help of these irrigation facilities within two years of the start of the programme. BRC hoped that the programme would start from December 1969 and would be completed by the

EXHIBIT 3: LIST OF THE BANKS AND THE EXTENT OF PARTICIPATION

Name of Bank	Extent of Participation (Rs)
Central Bank of India	8,89,01,727
United Commercial Bank	6,00,65,346
Punjab National Bank	7,03,46,958
Bank of India	5,16,58,580
Bank of Baroda	1,73,50,000
United Bank of India	3,99,49,084
Allahabad Bank	1,98,19,785
Dena Bank	50,00,000
Union Bank of India	25,00,000
All the Banks Total*	35,55,91,480

* The difference between the totals of Exhibits 2 and 3 is due to the fact that there were minor changes when the allocation of total funds required was made among participating banks. What is shown in this Exhibit is the final position arrived by the end of April 1970 after several negotiations between AFC and participating banks.

Source: Agricultural Finance Corporation.

EXHIBIT 4: TARGETS AND ACHIEVEMENTS OF BRC SCHEME

(Rs 000)

Type of Work	Targets for Two Years (1-12-69 to 30-11-71)		Achievements till June 1971*	
	Number	Amount (Rs)	Number	Amount (Rs)
Tubewells	4,455	2,48,00	327	8,74
Composite tubewells (tubewell with pumpset)	—	—	753	45,66
Open boring in wells	9,271	85,00	177	1,32
Surface percolation wells	8,769	2,50,00	556	3,22
Pumpsets	15,000	3,50,00	357	9,54
Persian wheels	7,000	49,00	129	53
Others	—	—	17	99
Diesel engines fitted on boats	70	8,00	—	—
1 1/2 inch shallow tubewells with hand pump	200	30	—	—
Pump houses	15,000	4,00,00	—	—
Cost of 25 million square feet of lined channel	—	5,00,00	—	—
Cost of energising pumpsets	20,000	6,00,00	—	—
Working capital for an area of 2,50,000 acres Rs 1000.00 per acre	—	25,00,00	—	—
Total capital	—	49,90,30	—	70,00

* Applications forwarded by the AFC to the banks is taken as the achievement of the programme.

end of December 1971. But the actual work of the programme could be started only in April 1970, because of initial difficulties in starting the programme.

The basic assumption of BRC had been that, as soon as the programme was announced to the farmers, it would be possible for the BRC to motivate farmers to come forward to apply for the loan and that they would be able to process the loan applications at the rate of at least 500 per month.

As outlined earlier, according to the procedure, the Kshetra Prabhari of each BRC centre was responsible for getting, on an average, 30 applications per month completely processed and the installation of tubewells completed so that BRC could derive its own commission for execution of the programme and sustain itself financially.

A study of the programme's implementation shows that between December 1, 1969, and June 30, 1971, (i e, in about 19 months) the actual number of applications processed was 2,316, i e, 122 applications per month — or, on an average, only 7 applications per centre. The total loan against these applications was about Rs 70 lakhs. Details of the targets and the achievements of the programme are given in Exhibit 4.

Of these 2,346 applications, 1,828 were sanctioned, aggregating Rs 59 lakhs. The actual amount disbursed was, however, only Rs 28 lakhs and was to 999 applicants. Thus, there was a tremendous shortfall from the targeted expenditure. The amount disbursed formed only 0.57 per cent of the total financial outlay of the plan. As against the 4,455 targeted number of tubewells, only 1,080 applications for tubewells were received in 19 months. The estimated expenditure for a tubewell in the plan was Rs 5,566. The actual expenditure per composite tubewell was Rs 6,064 and per ordinary tubewell it was Rs 2,672.

As against the targeted number of tubewells, if we consider the number of tubewells for which applications were actually forwarded to the bank by AFC as having fulfilled the requirements, only 24.24 per cent of the targets could be considered fulfilled. The picture of implementation becomes very bleak when we compare the other aspects of the programme. For example, against the target of 15,000 pumpsets with a total expenditure of Rs 3.5 crores, the actual number of pumpsets for which applications were forwarded to the banks by AFC were only 357, i e, 2.4 per cent involving an amount of Rs 9.54 lakhs, i e, 2.7 per cent of the total target. Against the targets of 9,271 open bore-wells, the number of wells for which applications were forwarded by AFC to the banks was only 177, i e, 1.9 per cent, and the amount involved was Rs 1.32 lakhs (1.5 per cent) against the target of Rs 85 lakhs.

As for surface percolation wells, the number of applications was only 556 against the target of 8,769. This works out to 6.3 per cent. The amount involved was Rs 3.21 lakhs, against the target of Rs 2.5 crores, working out to 1.3 per cent.

In the original plan, Rs 25 crores were provided for the working capital to irrigate 2.5 lakh acres — at the rate of Rs 1,000 per acre. Against this provision, there was no application and no amount was disbursed.

Success in implementation varied a great deal among the different BRC centres, The highest number of applications, 346, was received from Ekangarsari centre, and the lowest number was 17 from Manihari centre.

The variation in the achievements in the different categories of projects in the programme raises questions about the demand aspects of these projects. If one assumes that the same kind of effort was made for demand creation, the achievement in the tubewell project, compared with that in the pumpsets project or the open bore-wells project, would indicate a higher effective demand for the former than for the latter two.

One should further distinguish between 'the requirement' and 'the effective demand'. Although irrigation, particularly lift irrigation, is considered most desirable looking to the availability of underground water and the need for irrigation, the problem of converting this need into effective demand seems to concern the decision-making process of the farmer who has to buy the irrigation facilities and to invest.

How much time is taken in creating the demand and in making it effective — upto the point where the farmer actually buys the irrigation facilities — is shown by a few case studies and also by an overall study of all the tubewells completed between December 1, 1969, and February 12, 1971, in four BRC centres. This study only gives the facts regarding the time schedule.

VI

Case Studies

We give below only two cases to show the actual time taken, from the motivating of the farmer to the actual installation of the tubewells.

In Bhipur centre, the Kshetra Prabhari started contacting farmers from May 1, 1970. As a result of the Kshetra Prabhari's efforts, a farmer named Ram Chowdhry applied on September 10, 1970, for the installation of pumpsets. He was an inhabitant of Jayarampur village in Bhagalpur district. He had 32 acres of land, out of which 25.60 acres were cultivated. He also had 14 acres under irrigation. He applied for a loan of Rs 5,607 for the following purposes :

(a) Boring of tubewell Rs 2,060.00
(b) Pumpset with electric motor and installation expenses Rs 3,547.00
Rs 5,607.00

The BRC processed the application, obtained possession and non-encumbrance certificates, and forwarded the application to the AFC office on November 30, 1970. The AFC office scrutinised the application and forwarded it to the UCO Bank, Bhagalpur branch, on December 26, 1970. The Bank branch scrutinised the application, got the documentation executed, and sanctioned the loan on January 11, 1971. The work order was issued to BRC by the bank on January 22, 1971. The work was started by BRC on January 22, 1971, and completed on January 31, 1971. The total number of days between creating the demand and executing the work of installation of tubewell was 270.

In Bhipur centre, again, the Kshetra Prabhari approached another farmer named Ram Lakhan on May 1, 1970 and explained to him the tubewell scheme. This farmer filled in the application form on the same day. He came from village Hariho in Bhagalpur district. He had 15 acres of land, which was all cultivated. He had about nine acres under irrigation. The BRC centre scrutinised the application, and obtained possession and non-encumbrance certificates, and sent the application to AFC office on August 17, 1970. The AFC office scrutinised the application and sent it to the UCO Bank, Bhagalpur branch, on October 24, 1970. The bank branch obtained the necessary documents and sanctioned the loan on December 9, 1970. The work order to BRC was issued by the bank branch on December 17, 1970. The work was started on December 27, 1970 and completed on December 31, 1970. The total number of days between creating the demand and executing the work of installation was 240.

EXHIBIT 6: ANALYSIS VARIANCE TABLE

Type of Activity	Between the Centres		Within the Centres		F Value
	SS	MSS	SS	MSS	
Demand creation	122822.00	40940.80	163624.00	1529.19	26.7728**
BRC processing of application	28258.80	9419.62	29011.30	271.13	34.7416**
AFC processing of application	38550.50	12850.20	39796.90	371.93	34.5496**
Sanction of loan by the banks	23355.40	7785.15	65104.00	608.45	12.7951*
BRC completion of tubewell	39241.50	13080.50	29060.80	271.59	48.1615**
All the activities	332999.00	111000.00	223920.00	2092.71	53.0411**

** Significant at 1 per cent level.
* Significant at 5 per cent level.

EXHIBIT 5: AVERAGE TIME TAKEN BY DIFFERENT ACTIVITIES IN THE COMPLETION OF TUBEWELLS

(in days)

Name of Centre	Number of Tubewells Completed*	Creation of Demand	Processing of Application by BRC Centre	Processing of Application by AFC	Sanctioning of Loan by Bank	Issuance of Work Order by the Bank to BRC	Starting of Work by BRC	Completion of Work by BRC	Total Time Taken
Ekangarsarai	59	42 (1-94)	12 (3-90)	22 (1-40)	50 (18-96)	1	3 (1-5)	3 (2-7)	133
Ramgarh	21	60 (1-172)	27 (2-80)	40 (20-116)	27 (13-97)	1	37 (2-107)	19 (10-24)	211
Bhipur	8	45 (1-120)	71 (5-107)	50 (26-65)	66 (9-180)	16 (1-44)	9 (1-18)	5 (3-8)	161
Sarairanjan	23	127 (1-180)	9 (5-16)	69 (15-140)	32 (1-43)	1	4 (1-21)	11 (2-27)	253
All the four centres	111	63	18	37	43	1	9	7	178

* Tubewells completed from 1-12-69 to 13-2-71.
Note: Figures in brackets indicate range.

VII

Data from Completed Tubewells

Similar to these two case studies, we studied 111 cases of tubewells, that were completed. Exhibit 5 gives the details. The creation of demand took on an average 63 days. He have defined this period as the period between the first contact of BRC official with the farmer and the date of actual application for the loan for a tubewell by the farmer. The variation in this period was quite high. It varied largely, both among the centres and within the centres. The minimum average period was at Ekangarsari (42) and the maximum at Sarairanjan (127). The average number of days for the four centres was 63 with co-efficient of variation of 48.52 per cent. This variation may be due to two factors: (1) variation in the efforts by the BRC staff and (2) variation in the demand itself. The analysis of variance shows that both these factors are significant (Exhibit 6). The significance of the later factor leads one to ask 'why?' And it needs a special study of the investment demand for irrigation.

The question of demand creation may be separated from the problem of total time required for execution of the project — if the responsibilities of demand creation could be shared by government and organisations interested in promoting such activities in the state. If, however, this becomes the sole responsibility of organisations like AFC and BRC, then it does affect the business side of the project. It would be desirable, perhaps, to separate the cost of demand creation and consider that expenditure as 'social welfare expenditure'.

EXHIBIT 7: BREAK-UP OF THE MONTHLY EXPENDITURE OF BRC CENTRE

Items	Amount (Rs)
Establishment	
Assistant engineer (1)	350
Kshetra prabhari (1)	200
Overseer (1)	200
Accountant (1)	200
Clerk (1)	150
Compressor operator (1)	135
Jeep driver (1)	120
Chowkidar (1)	100
Peon (1)	100
Total	1,555
Travelling allowance	300
Jeep	650
Stationery	40
Total expenditure	2,545

The variation in the time taken to process the application again shows that there was a significant variation among centres and within centres (Exhibit 6). The within-centre variation indicates the complexities of land titles situation in Bihar and of official procedures for issuing non-encumbrance certificates. Comparing the average period taken for this work with the average period taken for demand creation, one can say that this is a controllable factor, and that with better efficiency both in government officials and in the BRC staff, the period could be further reduced.

The variation in the period taken by AFC to process the application after BRC had forwarded the application, raises two questions: (1) the BRC scrutiny may not be proper, and hence further time is taken to repeat the work of BRC; (2) the procedure is such that it takes more time. One can question whether such a scrutiny is needed. The variations among centres and within centres indicate the effect of variation in the processing by BRC centres, as also that the variation among individual farms is so great that the AFC organisation found it necessary to take varying lengths of time to process the application. Perhaps this period could be substantially reduced by streamlining the process.

Even after the detailed scrutiny by AFC, the average period taken by individual banks to sanction the loans was higher than the average period of scrutiny by AFC. The banks claimed that the time taken for sanctioning the loans was the result of the time taken by the farmers to produce the necessary documents. The variation in this period may indicate the difficulties experienced by the farmers and perhaps the passive attitude, meanwhile, of the banks.

In the whole process, the time taken by BRC's technical staff to complete the installation of the tubewells is the minimum and this goes to the credit of the organisation. Except at the Ramgarh centre, the work was started immediately after the issuance of work order, and it was completed within a reasonable time. Although the time taken to complete installation of the tubewell was not much, the variation among the centres was quite high and hence the analysis of variance showed significant results (Exhibit 6). Generally one expects delays in the execution of the works programme because of problems of materials management. But here is a case of the whole project getting delayed not because of the inefficiency of the technical staff but because of the delay on the part of people who are responsible for getting the work order to the technical organisation. This is a case of the production division suffering because of the inefficiency of the marketing division.

VIII

Financial Implications for BRC and ARC

As indicated in the 'procedure of implementation', the BRC was to charge 10 per cent of the actual cost of the installation of tubewells. If we assume 10 per cent as the total charges of BRC on the total amount disbursed, the revenue to BRC in 19 months would be Rs 2.8 lakhs, i e, about Rs 14,700 per month for all the 17 centres together and the revenue per centre would be Rs 868. Against this revenue, the approximate expenditure on the establishment of the centre of BRC was Rs 2,545 per month (Exhibit 7). Thus, there was a heavy loss for BRC in the implementation of the programme. The total loss suffered by BRC to run the 17 centres would amount to Rs 5.4 lakhs for 19 months. In addition to this, the BRC maintained a sizeable staff at the headquarters on an approximate expenditure of Rs 15,000 per month. The total expenditure would put BRC into red. AFC was to earn 0.25 per cent on the disbursed loans. The total revenue of AFC would thus be Rs 7,000. Against this revenue, the estimated expenditure of AFC was Rs 85,000 for 17 months.

Allocation of the total cost of the project for the activity of demand creation would, perhaps, alter the picture of cost-benefits of the project. However, the questions still remain: (1) who should do the work of demand creation and (ii) if organisations like BRC and AFC take up the work of demand creation, should the total project be not governed by the efficacy of the demand creation efforts.

IX

Retrospective Evaluation of Strategy

The achievements after 19 months of the programme seem very disappointing compared with the targets. However, the same achievements could be viewed differently if the strategy is viewed in terms of marketing and production efforts. It seems that both BRC and AFC decided to undertake a large scheme to create an impact for the area development scheme. Hence they concentrated their energies on developing an infrastructure for the financial and technical execution of a big minor irrigation programme. Although the objectives of the programme were very laudable, and although the officials of both BRC and AFC were highly motivated, they failed in their marketing efforts.

A major difficulty seems to have been the lack of effective demand. Although the water table in most of the areas where BRC centres operated is quite high and there is high probability of getting water, farmers did not come forward in large numbers with the investment demand. To make the farmers apply for a tubewell was a job contrary to what we saw in Gujarat state, where it was difficult to satisfy the demand. Bihar farmers had to be goaded to bring the necessary evidence for the possession and non-encumbrance certificates for land. Was there then a lack of demand? What kind of promotional efforts are needed to create demand? Should not the 'marketing' efforts precede the 'production' efforts? Should there not be a strategy of market development? Should there not have been priority markets? Why was a strategy of test market not adopted? How is it that the cost-benefit has been worked out without raising the problems of volume of business? Should there have been divided responsibilities for demand creation, supplies, and credit, among different organisations — without each sharing the cost of the total activity?

In retrospect, one can raise many questions. However, the major lesson one has to learn from this experience of planning and implementation of financing an area development scheme is that it is necessary to obtain proper knowledge of the problems of demand, administrative bottlenecks of land titles and encumbrance certificates, and farmers' motivation and attitudes towards

risk taking at the micro level, and necessary also to understand the variations among the micro units. Based on a realistic appraisal of these problems, one can develop an infrastructure suitable for tackling the problem of the area. Efforts to develop the infrastructure first and then to begin to understand the problems of the micro units in the area becomes a costly affair.

Notes

1 "Financing Agriculture", National Institute of Bank Management, 1969, pp 6-7.

2 T R Varadachari, *Co-operative News Digest*, Volume 21, July 1970, pp 105-7.

3 Desai, D K 'Intensive Agricultural District Programme — Analysis of Results', *Economic and Political Weekly*, Volume IV, Number 26, June 28, 1969.

4 In response to our request for comments on this paper, B Rudramoorthy, Managing Director, Agricultural Finance Corporation, Bombay, suggested several factual corrections which we have carried out. He has also sent a note explaining in detail the working of BRC scheme and gave data on the latest position as on 31-12-1971. We think that this note highlights certain difficulties of implementation and thus adds to the information given in the paper. However, it strengthens our conclusion that more efforts were needed to create demand and to take up the programme on the basis of identified demand. We have attached this note as Exhibit 8.

EXHIBIT 8: AFC'S NOTE ON PLANNING AND IMPLEMENTATION OF FINANCING AREA APPROACH SCHEME

The Agricultural Finance Corporation formulated the BRC scheme on the basis of certain assumptions which are stated below:

(1) The implementation of land reforms in the state had provided clear title to the farmers of the holding size below 10 acres and that the revenue and land registry records will show the up-to-date position in respect of titles without any vagueness or ambiguity.

(2) That title certificates and encumbrance certificates will be issued by the government authority within a week of submitting the applications and much more importantly, such certificates will show the ownership or the title to the properties and the liabilities on them very clearly.

(3) That the State Electricity Board had the organisational and technical resources to energise 15,000 agricultural wells every year and what it needed was only financial assistance.

(4) That the 'green revolution' was taking place in Bihar at a rapid pace. That in the district of Purnea alone, 200,000 acres came under high-yielding variety wheat and an equal extent under the high-yielding variety of paddy in a span of two years. That multiple cropping at 290 per cent intensity was feasible. Projections made in the state five-year plans on this basis were feasible.

(5) The estimates of cost as prepared by the Unified Minor Irrigation Department for the different types of construction tube-wells, open bores, surface percolation wells, pump house with sumps and channels and pumpsets were adopted by the BRC.

The following crucial phases can be identified in the implementation of the scheme:

(1) Identification of eligible farmers;
(2) Preparation of applications by them or for them;
(3) Obtaining of title certificates;
(4) Obtaining of encumbrance certificates;
(5) Production of title deeds if any available;
(6) Production of receipts for land rent paid to the government;
(7) Determining the status of the applicant as individual or joint family and enumerating the co-parceners;
(8) Verifying the liabilities of the family on the land or otherwise, especially commitments made to institutional agencies;
(9) Obtaining legal opinion on the title of the applicant to the property;
(10) Determining the economically feasible cropping pattern acceptable to the borrower;
(11) Determining technical aspects;
(12) Executing documents by borrowers;
(13) Execution of the works;
(14) Supply of inputs like pumpsets, fertilisers, etc;
(15) Energisation of wells.

The following agencies have a vital role to play in the implementation of the scheme:

(1) *Block Agency*: for identifying the farmers and issuing possession certificates and No Due Certificate and persuading the farmers to adopt economically feasible crop patterns and use of fertilisers and other improved inputs;
(2) *BRC*: in determining the technical feasibility in helping the borrower to fill the application and obtain the necessary certificates and executing work expeditiously. Assisting in executing the documents, ensuring supply of quality pumpsets and their maintenance.
(3) *AFC*: in determining the economic and legal feasibility and providing norms and yardsticks for the guidance of the bank agents in general and where necessary, in specific proposals.
(4) *Banks*: expeditious sanction of proposals, execution of documents and disbursements.
(5) *State Electricity Board*: energising the complete wells.

Very soon it was realised that the assumptions on which the scheme was based may have to be revised. It was found that even though land settlements had been made as a result of land reforms, in many cases they had been questioned in the courts of law. Each district had not less than 25,000 pending litigations. Besides, there were large number of benami owners who could not take any decision without the consent of their ex-landlords and currently owners in disguise. The title certificates though often issued expeditiously, were not clear; often they were in the names of dead ancestors or separated co-parceners were shown as joint owners.

Farmers themselves may not apply for mutation because of some pending compromises in respect of one or two plots. Mutation proceedings may thus take more time than provided for under the rules. In issuing the certificates very often the authorities did not conform to the printed proforma, but made their own remarks in manuscript; often vague or general.

Although provision has been made for a sum of Rs 6 crores to be advanced to the Electricity Board, to energise 20,000 wells during the two years, proposals have not been sent by the Electricity Board for even a single group of wells. 95 per cent of the wells already executed remain unenergised. There was practically no demand for working capital. Where there was demand, it was only for the cash portion of the loan.

The original designs and standards specified for tubewells have undergone material changes. Agricultural strainers or slotted pipes are now used as against the original provision for brass strainers. In many places farmers prefer cavity wells where no strainers are used. Similarly, instead of standard designs given for pumpsets and pump house, farmers go in for simpler designs. Because of these changes it is found that even where physical targets are maintained, financial targets may not be reached.

In the identification and motivation of farmers, adequate work was not done by the extension agencies. It was also found that the banks were not able to extend their branches as originally planned. Banks who were allotted certain centres could open branches there, while on the other hand, other banks opened branches in these centres. Because of these difficulties, AFC had to persuade BRC to undertake the heavy burden of identifying and motivating the farmers and processing of applications in the initial stages. It was also found that the banks did not have mo-

TABLE A

Date	Centre	Number of Applications Received at the Centre in the Melas	Amount Involved (Rs)
11-12-71	Mairwa	48	1,08,000
12-12-71	Manjhi	73	4,68,000
24-12-71	Bhipur	185	6,35,000
26-12-71	Gogri	314	11,35,500
28-12-71	Asarganj	115	9,35,000
30-12-71	Eknagarsarai	96	3,10,650
6-1-72	Bagodar	57	72,608
12-1-72	Ramgarh	70	4,21,142
17-1-72	Madhubani	67	4,70,205
21-1-72	Sarairanjan	93	4,98,375
29-1-72	Nawadah	225	5,79,228
		1,343	56,33,708

del drafts for several documents to be taken in the field of rural financing. For example, many banks did not have a draft for land mortgage bond. AFC had to work on these documents, get the approval of the recognised solicitors, and then communicate them to the banks.

The stamp duty exemption given by the government was not adequate. While exempting the stamp duty on the mortgage amounts upto Rs 5,000 and 50 per cent from Rs 5,001 to Rs 10,000, the government increased the registration charges. The result was, the farmer had to find initial cash upto Rs 250 to obtain a loan. There was very often long time lag between the date of sanction and the date of documentation.

It was also assumed that, in these centres, other agencies will not be operating. But the state government, without consulting even the state level Coordination Committee, introduced a 'crash programme' for minor irrigation in September 1970. This crash programme was to be operated through the cooperative Land Mortgage Bank and provided for very advantageous terms in the matter of rate of interest and the term of loan. As the Land Mortgage Banks enjoyed complete exemption from stamp duty and registration fee, farmers tried to queue up under the scheme and wait rather than come to the commercial banks.

Finding that these gaps may not be filled by the different agencies, AFC has taken the initiative — during the current season commencing from December 1971, to organise concerted drives in the villages of these centres, making individual contacts with farmers and at the end of the drive, organising a one day functional conference at a central place. These conferences are attended by Village Level Workers, Village Karmachari (revenue official), Circle Officer or BDO, BRC and AFC officers, lawyers, banks' representatives, Field Officers and in some places a representative of the State Electricity Board. The applications are processed on the spot. The results are encouraging. For the conferences conducted so far, the results are given in Table A.

They reveal the latent potential that can be realised if proper co-ordination efforts are made. A review of the conference results shows that only about one-fifth of the villages in a centre are reached in a drive. Therefore, it is now proposed to conduct monthly drives in each centre till May 1972 and then see the achievements.

Progress as on 31-12-1971

Number of applications forwarded to banks:	2882
Total value of the above proposals:	Rs 80,40,734
Number of proposals sanctioned by banks:	2232
Total value of the above sanctions:	Rs 71,59,108
Number of sanctioned cases in which farmers have executed documents:	1211
Amount disbursed by banks	Rs 31,84,089

In any study, these questions of infrastructure, state of land reforms, role of different agencies, and the effect of the government policies must be examined.



Agricultural Wages, Production and the High-Yielding Varieties

Robert W Herdt

Edward A Baker

With the dramatic increases in agricultural production in certain regions following the use of high-yielding varieties, interest has focused on the fortunes of agricultural labourers. On the one hand, there has been concern that the rising wages of agricultural labourers in certain areas may reflect an increasing scarcity of labour, entailing mechanisation of operations. On the other hand, there is the feeling that agricultural labourers have not received their due share in the benefits of the new technology, i e, that wages have tended to stay constant despite the rising productivity.

This paper examines the available agricultural wage data in order to find out whether wages have been constant in the past and whether the new high-yielding varieties have had any discernible impact on them.

It seems clear from the analysis that, in most parts of India, increases in the demand for labour are not accompanied by increases in agricultural wages. It may be that the supply curve of labour is perfectly elastic near the region of its intersection with the demand curve, so that an outward shift of the demand curve (as a result of the new technology which is more labour-intensive) has no apparent impact on wages but merely increases employment.

However, in some regions, most notably Punjab, Kerala and possibly Tamil Nadu, the labour market appears to be different. The labour supply curve near the point of intersection with the demand curve is not perfectly elastic. Consequently, introduction of HYV has been accompanied by a significant increase in agricultural wages. These areas have also been the most rapid in accepting the HYV. This fact, of coincidence between most rapid adoption of HYV and a labour supply that is not perfectly elastic, may be significant and calls for further inquiry. It may be that some common factor — most likely rapid economic growth — has had the effect of pushing the demand for labour beyond the perfectly elastic portion of the supply curve.

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I

Focus on New Problems

THE recent rapid introduction of high-yielding varieties in India has provided dramatic increases in agricultural production in certain regions. These production increases, especially in wheat, have made the country nearly self-sufficient in foodgrains and given reason for planners and scholars to look at a new series of problems in the rural areas. Concern with the economic status of small farmers and of agricultural labourers has high priority. And in the discussions which have occurred, two nearly opposite themes may be identified.

First is the concern that the rising wages of agricultural labourers in certain areas may reflect increasing scarcity of labour. Table 1 shows that wages have increased substantially since the middle 1950s, especially in areas where the new technology has been well accepted. In these same areas, the combination of new technology and relatively favourable prices has provided substantial windfall profits which the farmers are anxious to invest. The situation has thus provided a strong argument for mechanisation. Farmers on holdings of well-above-average size, who have had substantial income benefits from the new technology and who now have investible funds, argue that rising wages and a labour shortage make labour-replacing capital goods imperative for future growth. Projections of labour requirements for Punjab agriculture support these arguments [2].

A second concern which has arisen following the introduction of the high-yielding varieties is with the belief that agricultural labourers are not sharing equitably in the benefits of the new technology [3, 10]. In other words, in almost direct opposition to the above argument, it is claimed that real agricultural wages have remained constant despite the increased productivity in agriculture [6]. This would be consistent with surplus labour theories of development, but inconsistent with the ethical bias that the benefits of development should be shared.

There have been two recent analyses of agricultural wage data [4, 6]. The first study analysed data only for Punjab and it would be highly misleading to generalise about the whole economy from that experience. The second study relied on samples of wage data from certain regions and did not show wage data for the years after the introduction of the HYV. It is the purpose of this paper to examine the available agricultural wage data for India in order to determine whether wages have been constant in the past and whether the new high-yielding varieties have had any discernible impact on them.

II

Agricultural Wage Determination

The wage rate for agricultural labour may be considered as being determined by the demand for and the supply of agricultural labour. That demand is a function of the marginal productivity

TABLE 1: AVERAGE MONEY WAGE FOR MALE FIELD LABOUR

Region		Rs/Day		
		1954/55-1958/59	*1959/60-1963/64*	*1964/65-1968/69*
I	Bihar/West Bengal	1.40	1.79	2.03**
II	Assam/Tripura	2.43	2.05	2.65
III	Andhra Pradesh	1.41	1.63	2.42
IV	Mysore/Andhra	1.21	1.60	2.44
V	Kerala	1.63	2.03	3.24
VI	Bombay	1.56	1.53	2.27
VII	Madras	1.20	1.30	2.17
VIII	Punjab	2.11	2.48	4.20
IX	Madhya Pradesh	1.22*	1.25	1.77

* Average for 1957/58 and 1958/59.
** Average for 1964/65 and 1966/67.

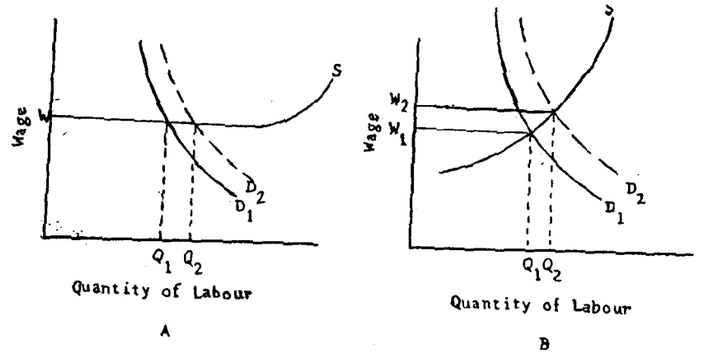
of labour, while the supply is a function of the population, the institutional forces affecting attitudes toward work, and the possible alternative sources of income.

There has been an extensive discussion and analysis of the marginal productivity of agricultural labour under traditional Indian conditions. Some hold that the marginal productivity is zero, while others believe that labour has a low but positive marginal product. We are dealing here with the marginal product of *hired* labour, and argue that under present conditions in India the individual farmer will hire labour in an economically rational way, such that, the marginal value product of hired labour is equal to the wage rate — regardless of what the marginal value product of family labour may be. Diminishing returns ensure the usual downward slope of the demand for labour. Johnston and Cownie [5] and Billings and Singh [2] have examined the labour requirements of the new technology which they have found to be more labour-intensive than the old technology. Thus, with the introduction of the new technology, the demand curve for labour will be shifted to the right.

The shape of the supply function of labour reflects institutional forces [7]. If the social system provides a subsistence income for potential agricultural workers, then individuals will have a reservation price for their labour, resulting in a supply curve of labour as shown in Figure 1A where the perfectly elastic portion of the supply curve reflects the constant institutional wage rate arising from the reservation price.

The reaction of wages to a change in the demand for labour is largely dependent on the shape of the supply curve of labour near the region of its intersection with the demand for labour. If the labour supply curve is perfectly elastic, as illustrated by the horizontal portion in Figure 1A, and if the demand curve intersects the supply curve along that horizontal portion, an outward shift in demand from D_1 to D_2 would increase employment from Q_1 to Q_2, but would not increase wages (henceforth called 'situation A'). If, however, the demand for labour intersects the supply of labour on its upward rising portion, or if the supply of labour does not have a perfectly elastic portion, as in Figure 1B, a shift in the labour demand curve from D_1 to D_2 would cause both employment and wages to increase (henceforth called 'situation B').

FIGURE 1: ELASTICITY OF LABOUR SUPPLY AND SHIFTING DEMAND



III

Demand for Labour

Shifts in the demand for labour may be caused by a variety of forces. Within a single year seasonal factors cause the demand for labour to vary, and in situation B this may get reflected in a seasonal wage pattern. A change in agricultural production from one year to the next would cause a related change in the demand for labour. The high-yielding varieties with their higher labour requirements would cause a direct increase in the demand for labour. Each of these situations is examined.

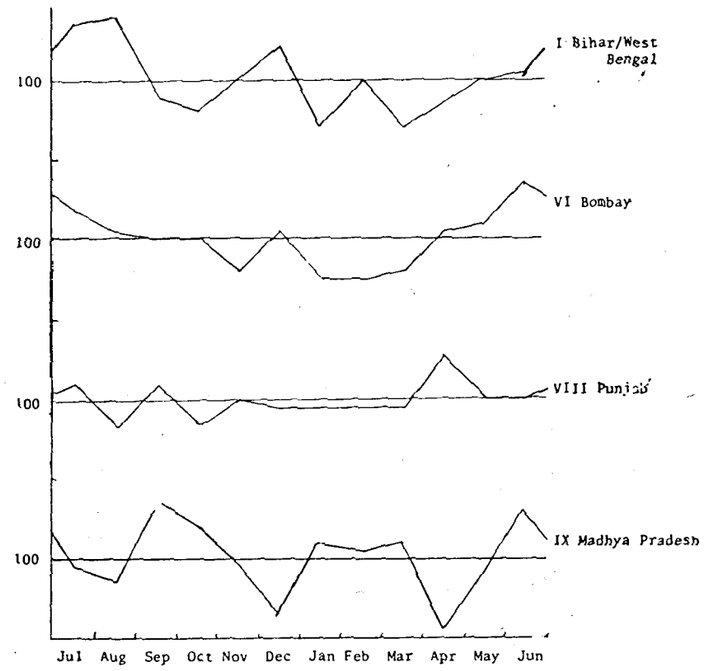
The average daily money wages, by months, were obtained for a number of locations from the wage data published in *Agricultural Wages in India* and in *Agricultural Situation in India*. For certain years, data for Punjab were not available in these sources; they were therefore obtained from the *Quarterly Bulletin of Statistics* and the *Statistical Abstract* of the Government of the Punjab. For each month, observations from between three and nine locations in each region were averaged to obtain representative wages for the nine regions listed in Table 1.

Wages are reported for men, women, and children separately, by task, but preliminary analysis confirmed that all reported wages are highly correlated. It was decided, therefore, to carry out the analysis using only male field wages.[1]

SEASONAL PATTERNS OF AGRICULTURAL WAGES

The existence of a strong seasonal pattern of wages would seem to indicate an upturning labour supply curve. However, seasonal agricultural labour is generally hired for a specific job, such as weeding or harvesting [11], and different agricultural operations might result in different wage rates simply because of the difficulty of performing particular operations. For instance, ploughing is heavier work than weeding, and might have a higher reservation price. If this is true to any great extent, it might cause seasonal

FIGURE 2: TIER CHART OF SEASONAL INDICES OF MALE FIELD DAILY AGRICULTURAL WAGES FOR WHEAT PRODUCING REGIONS



fluctuations of wages, even in the absence of an upward sloping supply curve. On the other hand, diversification and multiple cropping, by spreading agricultural operations over the whole year, tend to reduce seasonal fluctuations. Consequently, any conclusions about the labour supply curve based on seasonal patterns alone would be difficult to interpret. Because of the general belief in seasonal wage fluctuations, we present the results of the seasonal analysis in spite of these difficulties.

Seasonal indices of male field labour were constructed for each of the nine regions (Table 2). The standard deviations of the indices are generally large, indicating that one cannot place a high degree of confidence in the monthly index values. Data for the four regions producing large acreages of wheat are shown as a tier chart in Figure 2, revealing rather complex patterns. There is a suggestion of several peaks and troughs in each region, but the timing is different in each. Similar conclusions are obtained by examining the tier charts in Figure 3 relating to the five regions in which rice is planted on a large acreage. Of the five, only regions IV and VII show pronounced patterns and the seasonal indices in these regions have among the highest standard deviations. For example, in region IV, the February, March and April values of the index are 85, 76 and 81, respectively, with standard deviations of 20, 22 and 11, respectively, indicating a rather wide range of possible values around the seasonal indices. The absence of strong seasonal patterns is striking to these observers. And, although there are many difficulties in interpreting this finding, one cannot, based on it, reject the existence of a perfectly elastic supply of labour.

AGRICULTURAL WAGES AND PRODUCTION

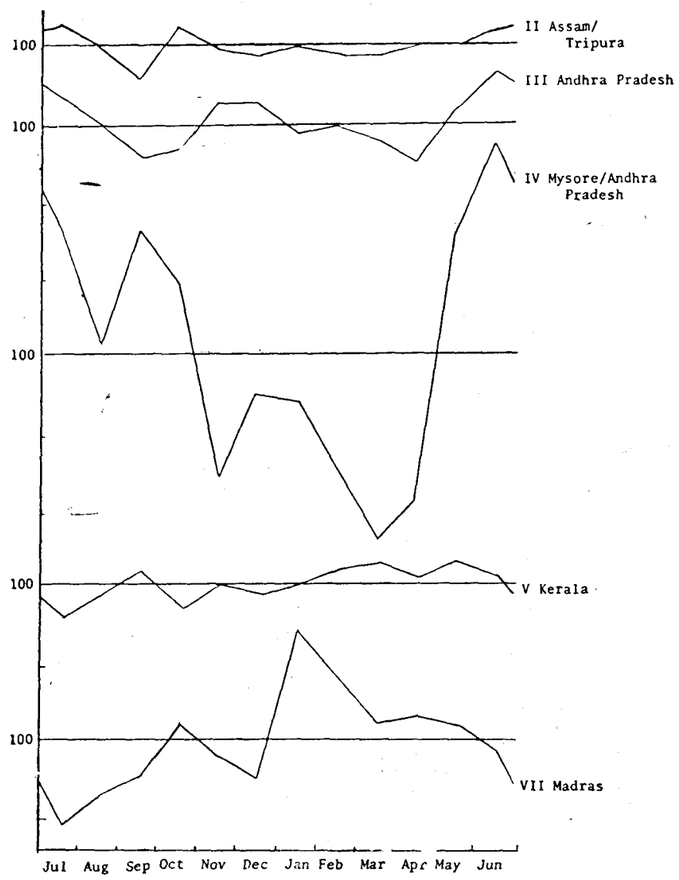
The relationship between wages and production is examined to determine whether wages move with production over time. A close positive relation would indicate situation B, while in situation A increased production would cause no change in wages. Table 3 shows the simple correlation co-efficients between money wages and production

TABLE 2: MONTHLY SEASONAL INDEX FOR AVERAGE DAILY MALE AGRICULTURAL WAGES, BY REGIONS

Region		July	August	September	October	November	December	January	February	March	April	May	June
Bihar/West Bengal	$\bar{X}$	107	108	98	96	100	104	94	100	94	97	100	101
	s	10	14	8	7	9	12	18	13	9	14	10	18
Assam/Tripura	$\bar{X}$	103	100	96	103	100	99	100	99	99	100	100	102
	s	8	5	11	10	3	3	3	4	4	3	6	8
Andhra Pradesh	$\bar{X}$	104	100	96	95	103	103	99	100	98	95	102	107
	s	6	9	8	8	11	11	7	17	16	9	8	11
Mysore/ Andhra Pradesh	$\bar{X}$	116	101	116	109	84	95	94	85	76	81	115	127
	s	14	20	11	11	15	7	8	20	22	11	19	15
Kerala	$\bar{X}$	96	99	102	97	100	99	100	102	103	101	103	101
	s	10	7	12	9	6	8	4	6	5	9	11	9
Bombay	$\bar{X}$	104	101	100	100	96	101	95	95	96	101	102	107
	s	9	11	7	7	7	7	10	8	8	11	7	7
Madras	$\bar{X}$	89	93	95	102	98	95	114	108	102	103	102	99
	s	9	11	8	10	10	10	16	14	14	13	16	11
Punjab	$\bar{X}$	102	97	102	97	100	99	99	99	99	105	100	100
	s	7	6	6	7	8	8	7	6	7	8	11	11
MadhyaPradesh	$\bar{X}$	99	97	107	104	99	93	102	101	102	91	98	106
	s	7	5	9	6	7	8	4	7	5	10	7	13

Note: $\bar{X}$ = Seasonal index.
s = Standard deviation.
Source: Computed from data in [1] Table 3, Appendix B.

FIGURE 3: TIER CHART OF SEASONAL INDICES OF MALE FIELD DAILY AGRICULTURAL WAGES FOR NON-WHEAT PRODUCING REGIONS



of the important foodgrains in each region.

In over half the cases examined, money wages in a region were significantly related to grain production. The relationship seems especially consistent in respect of rice, but shows up for other crops as well. The correlation between money wages and total foodgrains production was also calculated. It would seem that total foodgrains production — rather than production of the individual grains — would be a better indication of the total demand for agricultural labour, so it was surprising that the correlation between wages and total foodgrain production was highly significant in only three regions. In three other regions, the correlation was significant at the 5 per cent level; and in the remaining three it was not significant.

TABLE 3: CORRELATION BETWEEN MONEY WAGES AND FOODGRAINS PRODUCTION

Region	Rice	Wheat	Maize	Jowar	Bajra	TFG
Bihar/West Bengal	—0.36	—0.61*	—0.10	—	—	—0.36
Assam/Tripura	0.56*	—	—	—	—	0.56*
Andhra Pradesh	0.68*	—	0.87**	—	—0.28	0.54*
Mysore/Andhra	0.84**	0.48	0.84**	0.67**	—0.10	0.65**
Kerala	0.76**	—	—	—	—	0.77**
Bombay	—0.21	—0.12	—0.19	0.15	—0.13	—0.19
Madras	0.68**	—	—	—	—0.24	0.56*
Punjab	0.78**	0.98**	0.72**	—	0.82**	0.92**
Madhya Pradesh	—0.26	—0.31	0.30	0.72**	—	—0.06

* Significant at 0.05 level.
** Significant at 0.01 level.

It seems clear from the correlations in Table 3 that money wages in the regions, designated as Assam/Tripura, Andhra Pradesh, Mysore/Andhra, Kerala, Madras, and Punjab, did vary with production of the major foodgrains while in Bihar/West Bengal, Bombay, and Madhya Pradesh, they did not. This indicates that, by and large, in years when production was high, money wages were high, and when production was low, money wages were low. However, during the period under study, production, wages, and prices, all showed upward trends. In the circumstances, the higher money wages accompanying increased production may not have resulted in greater purchasing power. In order to obtain a better test for the effect of production on wages, money wages were deflated and the resulting real wage data were correlated with foodgrains production.

Regional consumer-price indices are not available for rural areas, so an index was constructed to be used as a deflator for each region. Expenditure for cereals and cereal substitutes range from 74 per cent of total expenditures for the lowest income classes to 39 per cent for the highest income classes [8]. Since agricultural labourers are among the lowest income classes, it was decided that a wage deflator for agricultural labourers comprising only cereal grain prices would be adequate. Rice and wheat constitute the largest fraction of cereal consumption, while jowar, bajra, maize, barley, ragi, gram, and small millets, make up about 32 per cent of the cereals consumed in all of India. However, these last four are supplementary to the major grains, and therefore were not included. The regional weights used in the price deflator are shown in Table 4.

Annual wholesale prices used in constructing the deflator were those reported by the Directorate of Economics and Statistics in *Agricultural Prices in India*.[2] Wholesale prices[3] were used because of their availability and their close relationship to prices paid by agricultural labourers.

The correlations between real wages and production, presented in Table 5, give a quite different impression from

TABLE 4: RELATIVE CONSUMPTION WEIGHTS USED IN WAGE DEFLATOR

Region	Weights of Indicated Foodgrain			
	Rice	Wheat	Jowar	Bajra
Bihar/West Bengal	0.84	0.16		
Assam/Tripura	1.00			
Andhra Pradesh	0.77	0.23		
Mysore/Andhra	0.60		0.40	
Kerala	1.00			
Bombay	0.18	0.22	0.42	0.18
Madras	1.00			
Punjab		1.00		
Madhya Pradesh	0.45	0.37	0.18	

TABLE 5: CORRELATION BETWEEN REAL WAGE AND FOODGRAIN PRODUCTION

Region	Rice	Wheat	Maize	Jowar	Bajra	TFG
Bihar/West Bengal	—0.43	—0.75**	—0.46	—	—	—0.46
Assam/Tripura	—0.24	—	—	—	—	—0.24
Andhra Pradesh	—0.12	—	0.08	—	—0.15	—0.16
Mysore/Andhra	—0.21	—0.18	—0.29	0.04	—0.01	—0.10
Kerala	0.36	—	—	—	—	0.38
Bombay	—0.46	—0.13	—0.13	—0.37	—0.14	—0.12
Madras	0.43	—	—	—	—0.31	0.30
Punjab	0.22	0.54*	0.13	—	0.29	0.47
Madhya Pradesh	—0.01	0.09	—0.19	—0.75*	—	—0.15

* Significant at 0.05 level of confidence.
** Significant at 0.01 level of confidence.

TABLE 6: CORRELATION BETWEEN REAL WAGES AND LAGGED FOODGRAIN PRODUCTION INDIA, 1954/55 TO 1968/69

Region	Rice	Wheat	Maize	Jowar	Bajra	TFG
Bihar/West Bengal	0.22	—0.45	—0.32	—	—	0.01
Assam/Tripura	0.02	—	—	—	—	0.02
Andhra Pradesh	0.16	—	0.14	—	—0.24	0.12
Mysore/Andhra	—0.02	0.15	—0.06	0.12	0.15	0.18
Kerala	0.60*	—	—	—	—	0.62*
Bombay	—0.12	0.04	0.02	—0.23	0.03	0.05
Madras	0.44	—	—	—	0.25	0.43
Punjab	0.30	0.57*	0.39	—	0.69**	0.64*
Madhya Pradesh	0.56*	0.55*	—0.36	—0.52*	—	0.39

* Significant at 0.05 level of confidence.
** Significant at 0.01 level of confidence.

that created by Table 3. Only one correlation is significant at the one per cent level and it has a negative sign. Two co-efficients are significant at the 5 per cent level, and one of those is also negative. Of all the cases examined, only in Punjab are real wages positively and significantly correlated with production of a foodgrain.

Rath and Joshi observed a lag in the response of wage rates to production in their analysis [11]. This might occur if labourers do not perceive shifts in the demand for labour until after those shifts occur. Or, since the greatest increase in the demand for labour occurs at the end of the crop year, it might be argued that any response of real wages will occur in the year following production changes. Table 6 shows the correlations between lagged real wages and production in the nine regions analysed.

Again, there is little to indicate a strong relationship between wages and production. In Punjab, Kerala, and Madhya Pradesh, there is a significant correlation between lagged production of certain grains and real wages, but the degree of correlation is small. Only for lagged bajra production in Punjab is the correlation significant at the one per cent level. Thus, the above evidence seems to indicate that real wages are not generally influenced by production.

Beginning in 1966-67, the production of the high-yielding varieties (HYV) has been an important new factor in agriculture. These varieties require substantially more labour and there is thus a substantially increased demand for labour where they have been widely adopted. To determine whether the HYV have had such an effect, the wages and the area in relation to HYV were correlated. Since only three years of data (1966-67 to 1968-69) were available, each region could not be analysed separately; so data from seven regions were pooled.[4]

Table 7 shows that the per cent of area planted with high-yielding wheat is very significantly correlated with both money wages and real wages — whether the high-yielding wheat area is expressed as a percentage of total cereals acreage or as a percentage of total wheat acreage. The area under high-yielding maize, as a percentage of total cereals area, is also significantly correlated with wages. The HYV of the other cereals taken separately do not appear to have had any impact on wages — perhaps because they had not been adopted widely enough during the study years. However, wages are significantly correlated with the percentage of total cereals acreage under HYV.

These results indicate that in those areas in which the HYV, especially wheat, had been widely adopted, both money wages and real wages of agricultural labourers were higher than in regions where the HYV was not adopted.

IV

Patterns of Real Wage Changes

Some interesting results are apparent from an examination of the annual real wage data (shown in the Appendix). In nearly every region, money wages seemed to have fallen between about 1954-55 and 1957-58. During those same years the wage deflator remained roughly constant, so real wages fell. Beginning about 1957-58, both money wages and the wage deflator began rising so the direction of change in real wages is less obvious. Table 8 shows the results of an analysis of the trend of real wages, and the simple correlation co-efficient between time and real wages in each region.

Four of the eight regions show a significant trend in real wages, but in Madhya Pradesh the trend is downward. In Assam/Tripura, real wages increased about six paise per year, in Andhra Pradesh about four, and in Kerala about nine. The level of wages was by far the highest in Punjab, but

TABLE 7: CORRELATIONS OF PERCENTAGE ACREAGE OF HIGH-YIELDING VARIETY FOODGRAINS WITH WAGES

Correlation	Rice	Wheat	Maize	Bajra	Jowar	TCA
MW vs HYV/TA	—0.31	0.89**	—0.04	0.47	0.27	
n	21	12	15	15	9	
RL vs HYV/TA	—0.30	0.86**	—0.06	0.31	0.52	
n	21	12	15	15	9	
MW vs HYV/TCA	0.11	0.94**	0.70**	0.42	0.22	0.76**
n	21	12	15	15	9	21
RL vs HYV/TCA	0.37	0.91**	0.62**	0.20	0.53	0.75**
n	21	12	15	15	9	21

Notes: Correlations are significant to the 0.05(*) and 0.01 (**) levels of confidence.

MW = Money wage.
RL = Real wage.
TA = Total acres of crop indicated at top of table.
HYV = Acres under high-yielding variety of the crop indicated.
TCA = Total of acres in rice, wheat, maize, bajra and jowar.
n = sample size.

Source: Correlations computed from wage data which are shown in the Appendix, and foodgrain acreage from official statistics of the Directorate of Economics and Statistics.

TABLE 8: RESULTS OF REGRESSING TIME ON REAL WAGES, 1958/1966

Region	Intercept Term (Predicted Wage Rate in 1958/59) (Rs)	Co-efficient (Predicted Annual Change in Wages) (Rs)	Correlation between Time and Real Wages
Assam/Tripura	1.73	0.058*	0.83
Andhra Pradesh	1.58	0.040*	0.63
Mysore/Andhra	1.78	—0.006	0.15
Kerala	1.93	0.090*	0.74
Bombay	1.60	0.007	0.20
Madras	1.24	0.048	0.75
Punjab	2.66	—0.018	0.18
Madhya Pradesh	1.48	—0.016*	0.46

* Significant by t-test at 0.05 confidence level.

TABLE 9: TEST OF DIFFERENCE BETWEEN AVERAGE REAL WAGES 1954-1966 AND REAL WAGES IN 1967/68 AND 1968/69

Region	Percentage of Foodgrain Area under HYV in 1967/68	t Statistic for Average Wage and 1967/68 Wage	Percentage of Foodgrain Area under HYV in 1968/69	t Statistic for Average Wage and 1968/69 Wage
Punjab	11	4.54	21	12.57
Kerala	8	8.21	17	5.60
Madras	9	21.58	14	21.60
Bombay	6	—2.07	8	—1.63
Mysore/Andhra	4	—5.06	4	—5.01
Assam/Tripura	1	—1.89	3	—3.70
Andhra Pradesh	5	4.20	3	—1.10
Madhya Pradesh	1	—1.03	2	—1.06

between 1958 and 1966 no significant trend was noticeable in that region.

Turning to the post-HYV years, the real wage in 1967-68 and 1968-69 in each region was tested to determine whether it was higher than the average real wage during 1954 to 1966. The results are shown in Table 9 along with the percentage of foodgrain area planted under HYV. The consistency of the results is striking. In the three regions, in which the HYV covered 14 per cent or more of foodgrains acreage in 1968-69, real wages were significantly higher than in the earlier years. In all other cases, with one exception, real wages were actually *lower* in 1967-68 and 1968-69 than in the previous 13 years. These results indicate that the adoption of the HYV has helped at least to prevent a decline in the real wages of agricultural workers.

V

Summary and Conclusions

Seasonal patterns in wages were weak or had large standard deviations, tending to support the hypothesis of a perfectly elastic supply of labour in all regions. However, several complicating factors make the seasonal analysis a very weak test.

The analysis of money wages and production showed that, in six of the nine regions, money wages were significantly correlated with production of one or more of the foodgrains. However, real wages are of much greater interest. A wage deflator was computed and used to remove the effect of price-level changes.

Neither real wages and production nor real wages and lagged production were significantly correlated in seven of the nine regions. There was a significant correlation between wheat production and real wages in Bihar/West Bengal, and Punjab. Significant correlations, between real wages and lagged foodgrain production, in Kerala and Punjab support the hypothesis of delayed response to wage demands.

High-yielding wheat showed a high correlation with wages, but it was apparent that most of the rise in real wages in Punjab had taken place in the last two years studied. Before then, no trend in wages had been observed. In addition to Punjab, real wages in Kerala and Madras were significantly higher in 1967-68 and 1968-69 than during the previous period. These regions ranked second and third in adoption of HYV. All other regions showed lower real wages in the last two years compared with the earlier period

It seems clear from this analysis that, in most parts of India, increases in the demand for labour are not accompanied by increases in agricultural wages. That is, the agricultural labour market is something like Figure 1A rather than Figure 1B. In such cases the increase in demand for labour, caused by, say, the introduction of the high-yielding varieties requiring significantly more labour input than the old varieties, will have no discernible impact on wages.

APPENDIX: COMPUTATIONS OF ANNUAL AVERAGE DAILY REAL WAGES FROM ANNUAL AVERAGE DAILY MONEY WAGES BY REGIONS, 1954-55 THROUGH 1968-69

(agriculture years, rupees)

Region	Wage Components	1954-55	1955-56	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69
I Bihar/ West Bengal	RW	2.40	2.04	1.27	1.79	1.87	1.58	1.98	2.38	2.13	2.11	2.11	2.14	1.79	—	—
	MW	1.48	1.33	0.98	1.58	1.63	1.33	1.63	1.93	1.95	2.11	2.22	2.67	3.18	—	—
	D	0.62	0.65	0.77	0.88	0.87	0.84	0.82	0.81	0.91	1.00	1.05	1.25	1.78	2.03	1.79
II Assam/ Tripura	RW	3.35	2.83	2.23	2.15	1.61	1.83	1.99	2.16	2.05	2.08	2.09	2.23	2.15	1.98	1.76
	MW	2.40	2.46	2.52	2.74	2.04	2.11	2.00	2.05	1.99	2.08	2.22	2.53	2.66	2.85	3.00
	D	0.72	0.87	1.13	1.27	1.27	1.15	1.01	0.95	0.97	1.00	1.06	1.13	1.24	1.44	1.70
III Andhra Pradesh	RW	2.72	2.45	1.52	1.63	1.68	1.47	1.60	2.02	1.89	1.80	1.82	1.80	1.99	2.29	1.76
	MW	1.62	1.56	1.18	1.30	1.38	1.31	1.46	1.84	1.73	1.80	1.98	1.95	2.23	3.12	2.84
	D	0.60	0.64	0.78	0.80	0.82	0.89	0.91	0.91	0.91	1.00	1.09	1.08	1.12	1.36	1.62
IV Mysore/ Andhra Pradesh	RW	1.92	1.70	1.71	1.55	1.82	1.68	1.65	1.75	1.96	1.77	1.80	1.79	1.56	1.57	1.58
	MW	1.12	1.03	1.29	1.20	1.43	1.43	1.46	1.58	1.77	1.77	2.18	2.51	2.31	2.52	2.69
	D	0.58	0.61	0.75	0.77	0.78	0.85	0.88	0.90	0.90	1.00	1.21	1.40	1.48	1.61	1.70
V Kerala	RW	2.43	2.10	2.28	1.93	2.10	2.02	2.31	2.48	2.36	2.00	2.41	2.93	2.84	2.88	2.61
	MW	1.76	1.40	1.73	1.52	1.75	1.75	2.05	2.23	2.13	2.00	2.50	2.95	3.17	3.82	3.77
	D	0.72	0.67	0.76	0.79	0.83	0.87	0.89	0.90	0.90	1.00	1.04	1.01	1.12	1.33	1.45
VI Bombay	RW	2.51	2.43	2.13	1.79	1.49	1.61	1.71	1.69	1.79	1.50	1.64	1.74	1.59	1.62	1.66
	MW	1.57	1.65	1.75	1.52	1.33	1.49	1.52	1.51	1.61	1.50	1.94	2.21	2.25	2.46	2.50
	D	0.63	0.68	0.82	0.85	0.89	0.93	0.89	0.89	0.90	1.00	1.18	1.27	1.42	1.52	1.51
VII Madras	RW	1.40	1.73	1.53	1.52	1.43	1.34	1.38	1.37	1.42	1.32	1.65	1.58	1.85	2.47	2.50
	MW	0.96	1.25	1.28	1.31	1.21	1.18	1.32	1.34	1.34	1.32	1.74	1.65	2.02	2.72	2.71
	D	0.69	0.72	0.83	0.86	0.85	0.88	0.96	0.98	0.95	1.00	1.06	1.05	1.09	1.10	1.08
VIII Punjab	RW	2.81	2.72	2.59	2.60	2.29	2.44	2.79	2.75	2.97	2.85	2.56	2.29	2.22	2.90	3.43
	MW	2.05	2.08	2.19	2.20	2.03	2.17	2.38	2.39	2.62	2.85	3.02	3.02	3.57	5.17	6.23
	D	0.73	0.77	0.85	0.85	0.89	0.89	0.85	0.87	0.88	1.00	1.18	1.32	1.61	1.78	1.81
IX Madhya Pradesh	RW	—	—	—	1.40	1.37	1.40	1.52	1.49	1.43	1.32	1.36	1.46	1.20	1.06	1.05
	MW	—	—	—	1.25	1.19	1.14	1.23	1.28	1.27	1.32	1.52	1.70	1.77	1.92	1.94
	D	0.63	0.71	0.86	0.89	0.87	0.82	0.81	0.86	0.89	1.00	1.12	1.17	1.48	1.81	1.85

Notes: RW=Real wage.
MW=Money wage.
D=Deflator.

Source: Figures computed from data in Table 3 of [1].

However, in some regions — most notably Punjab and Kerala, and possibly in Madras — the labour market appears to be more like the situation in Figure 1B. In those areas, the introduction of HYV has been accompanied by a significant increase in agricultural wages. These areas have also been most rapid in accepting the HYV. It is probably of some significance that the areas of most rapid adoption are also areas which do not appear to have a perfectly elastic supply of labour. It would appear that some common factor which these areas have experienced — most likely rapid economic growth — has the effect of pushing the demand for labour beyond the perfectly elastic portion of the supply curve and of speeding the adoption of the new agricultural technology. However, such speculation is beyond the scope of the present study. All we can conclude is that something has caused an increase in real wages in these three regions.

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Notes

1 A full exposition and the evidence supporting this are available in [1].

2 In 1954, problems in the collection of price data were reported by the Agricultural Prices Enquiry Committee. Recommendations for solutions to these problems were made and reported to have been generally accepted by the state governments so that a reasonable uniformity in reporting can be assumed [12].

3 Prices were adjusted from a calendar year basis to a crop year basis by averaging prices in succeeding pairs of calendar years.

4 Region I was omitted because of missing data during the high-yielding variety years. Region II was omitted since only 3 per cent of total foodgrain acreage and 2 per cent of the acreage of the region's major foodgrain area had been converted to high-yielding variety crops by 1968-69.

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New Seed Varieties and the Small Farm

M Schluter

John W Mellor

That there is a relationship between adoption of the new varieties and size of farm, is generally accepted. In this article, the variability that existed within this relationship by crops, seasons, regions and years, in the period 1966-67 to 1968-69 is examined. Also examined are a number of factors which may underlie the relationship.

The authors conclude that, although credit appears to be important, uncertainty may be the critical constraint to adoption among small farmers. Credit availability and uncertainty are interrelated factors, but depending on which is taken to be the crux of the problem, policies undertaken to facilitate adoption among small farmers are bound to be different.

It is also noted that, for some crops, small farmers who adopt the new varieties plant a higher proportion of acreage with them than do large farmers. This may be due to a labour restraint on the larger farms. That possibility, and its policy implications, are examined.

[The authors are particularly grateful to G M Desai and B M Desai for comments on earlier drafts of this paper.]

IT is generally accepted that a relationship exists between adoption of the new seed varieties and size of farm.[1] However, within this broad relationship there is considerable diversity in the adoption pattern between crops, seasons, regions and years. Owing to the complexity of the problem, we have looked at the results of a number of studies on a comparative basis, drawing primarily on the published reports of the Agro-Economic Research Centres (AERCs) and the Programme Evaluation Organisation (PEO). The data used refer to the period 1966-67 to 1968-69.

In this analysis, a farmer is defined to have 'adopted' if he has put *any* part of his acreage under the new varieties. We also consider on what proportion of acreage under the crop he uses the new varieties. The level of use of variable inputs may have more influence on income than the proportion of acreage put under the new varieties;[2] but unfortunately comparative data were not available for a study based on a package of improved practices.

I
Proportion of Farmers Adopting and Size of Farm

Table 1 summarises the results of the linear regression[3] between proportion of farmers adopting and farm size for 20 cases studied by the AERCs, and Table 2 for 50 cases studied by the PEO.[4]

As expected, there is a significant positive relation between adoption and size of farm in most areas. In 17 of the 20 areas studied by the AERCs, the relationship is statistically significant, as it is in over half of those studied by the PEO. In no case was there a significant inverse relationship between adoption and size of farm. There is, however, considerable variability among regions and crops in the strength of the relation between farm size and adoption.

Rice

For East and West Godavari districts (Andhra Pradesh 1 and 2), studied by the AERCs [2, 3] adoption levels are much higher in the rabi than in the kharif season, as shown by the intercept terms in Table 1. The main reason for this is the greater profitability of the new rice varieties (especially IR-8) under the weather conditions of the rabi season. A second reason may be that the most successful of the new varieties, IR-8, was available for only one kharif season prior to 1968-69, but for two rabi seasons. Differences in adoption levels between farm size groups, shown by the size of the regression coefficients, were similar between the seasons although the absolute level of adoption was much higher in the rabi season.

Results are similar in Sainthia Block (West Bengal 1), [12, 13]. In 1968 the level of adoption was much higher than in 1967, but differences in adoption levels between farm size groups remained the same. But in Rampurhat-II Block, (West Bengal 2), differences between farm size groups narrowed between 1967 and 1968. The reason for this is that, by 1968, almost all farms in the area studied had adopted the new varieties.

Data from these two districts suggest the more general hypothesis that differences in levels of adoption between farm size groups do not diminish until almost all farms have adopted. If adoption ceases to be closely related to farm size only when almost all farms have adopted the new varieties, income differentials resulting from the new varieties will persist longest in areas where the overall rate of adoption is slowest. Thus, it becomes critical to know what factors lead to a rapid overall rate of adoption.

PEO data [16, 18, 19, 20] confirm the central finding of the AERCs. Taking all the rice-growing areas together in the three years 1966-1968, adoption levels increase significantly with size of farm (Table 2).

Bajra

In three villages of Kaira district (Gujarat 1, 2 and 3) studied by the AERCs [7], differences in levels of adoption between size of farm groups were found to be uniformly greater in the summer than in the kharif season. This may be explained in terms of yield variability. Large farmers in this area have greater access to irrigation water, so that they experience lower yield variability than do small farmers in the summer, when there is greater dependence on irrigation. Thus the difference between farm size groups in their experience of yield variability is greater in the summer, leading to greater disparities in adoption levels.

The finding of the AERC reports, that adoption levels increase significantly with size of farm in each of the bajra areas studied, is supported by the PEO data [16, 17] which show the same relationship in all the bajra-growing areas taken together (Table 2).

Paddy vs Bajra

Greater regression co-efficients for the bajra than for the paddy-growing areas

TABLE 1: ESTIMATED LINEAR REGRESSION FOR ADOPTION AGAINST FARM SIZE USING AGRO-ECONOMIC RESEARCH CENTRE DATA

Area by Crop†	Unrestricted Model							Restricted Model	
	Crop Year	Season	No Obs	Estimated Intercept	Estimated Slope	Estimated t Ratio	Sum of Squared Residuals	Estimated Intercept	Sum of Squared Residuals
Paddy									
West Bengal 1	67	K	8	13.28	2.83	4.37*	11003.48	33.71	46103.80
West Bengal 2	67	K	7	52.40	4.61	2.87*	25258.20	69.85	66991.04
West Bengal 1	68	K	8	38.06	2.75	4.07*	12277.14	58.70	46100.47
West Bengal 2	68	K	7	86.29	0.97	3.57*	1161.32	90.34	4117.78
Andhra Pradesh 1	68	K	5	9.26	1.42	6.07*	16067.54	23.79	213239.3
Andhra Pradesh 2	68	K	5	14.33	1.04	2.90*	13041.97	20.79	49561.35
Andhra Pradesh 1	68	R	5	58.78	1.61	2.02	14919.48	69.36	35179.14
Andhra Pradesh 2	68	R	5	37.22	1.82	3.38*	29526.27	49.27	141711.4
Orissa	66	K	5	—4.17	4.81	3.87*	13988.19	12.82	83757.80
Bajra									
Gujarat 1	67	K	6	20.43	4.96	3.63*	15397.28	42.91	65994.57
Gujarat 2	67	K	6	—0.20	3.96	4.64*	10323.99	12.51	65882.68
Gujarat 3	67	K	6	6.18	5.43	7.77*	17480.28	28.63	281365.7
Gujarat 1	67	S	6	49.12	5.74	1.67	7203.09	61.86	12253.60
Gujarat 2	67	S	7	38.69	8.07	3.09*	16090.52	49.83	46954.38
Gujarat 3	67	S	7	6.62	4.99	5.71*	2323.54	16.03	17498.66
Gujarat 4	68	K	8	1.64	3.18	9.56*	4720.62	13.64	76683.74
Gujarat 5	68	K	8	11.57	2.85	6.23*	17994.03	44.89	134420.0
Maize									
Bihar 1	68	K	5	16.11	6.99	5.53*	5290.04	48.15	59175.49
Bihar 2	68	K	7	19.70	2.65	1.64	68778.54	28.29	105666.70
Wheat									
Rajasthan	68	R	8	29.15	0.90	3.54*	31489.80	44.40	97210.65

† The numbering of the districts is shown in Appendix A. *Significant at 5 per cent level.
Sources: [2, 3, 6, 7, 9, 10, 11, 12, 14, 15].

studied by the AERCs indicate that differences in levels of adoption between farm size groups are greater in the former. A one-acre increase in farm size typically leads to a 5 per cent or more increase in the probability of adoption in a bajra-growing area in any given season or year, compared to 2 or 3 per cent in rice-growing areas. There are probably two main reasons for this. The first is a specification problem. Income per acre is considerably higher in paddy relative to bajra-growing areas. Therefore, credit and uncertainty cease to be constraints to adoption at a smaller farm size. Secondly, the increase in yield variability, in moving from traditional to new varieties, may be less in paddy than in bajra-growing areas owing to greater water control in the former. For this reason also, uncertainty will cease to be a constraint on adoption at a smaller farm size, and differences in adoption levels between farm size groups will be less.

OTHER CROPS

In Kota district of Rajasthan, studied by the AERCs [9], the relationship between adoption of new wheat varieties and size of farm is not significant. However, in the wheat areas studied by the PEO, taken together, a significant relationship does exist [16, 17, 19, 20]. For maize, data from both the AERCs [15] and the PEO [16, 17] indicate that the proportion of farmers adopting is higher in the larger farm size groups (Tables 1 and 2).

Jowar is the only crop for which the proportion adopting is similar among size of farm groups. This emerges from the PEO data [16, 18, 19, 20], and is hardly surprising since hybrid seeds were introduced relatively late in the period under study, so that adoption on all size of farm groups was generally less than 10 per cent (Table 2).

TABLE 2: F STATISTICS TO TEST THE HYPOTHESIS THAT ADOPTION IS UNRELATED TO FARM SIZE USING DATA FROM THE PROGRAMME EVALUATION ORGANISATION REPORTS

Crop	No of Areas	No of Obs	Observed F Statistic
Linear Model			
Paddy	16	82	6.91**
Bajra	8	39	44.16**
Maize	9	46	21.17**
Wheat	11	53	7.02**
Jowar	6	30	0.95

** Significant at 0.5 per cent level.
Source: Numbers 16-20 as listed in the references.

II

Proportion of Acreage under the New Varieties and Size of Farm

Table 3 summarises the results of the linear regression between proportion of acreage under the new varieties and size of farm for 18 cases studied by the AERCs, and Table 4 for the five crops, aggregated across regions, studied in the PEO reports.

RICE

Predominantly negative co-efficients in both sets of data indicate that as farm size increases, the proportion of the crop's acreage put under the new varieties decreases.

In East and West Godavari districts, a greater proportion of rice acreage was put under the new varieties in the rabi than in the kharif season in all size of farm groups. This probably reflects conditions better suited to the new varieties in the rabi season. The inverse relationship between proportion of acreage under the high-yielding varieties and farm size is most marked in West Godavari district (Andhra 2) in the rabi season. Profitability of the new rice varieties was greater in West Godavari, and was also greater in the rabi than in the kharif season. This suggests that small farmers may be willing to commit themselves further to an innovation in situations where it is clearly profitable to innovate and uncertainty, in terms of yield variability, has been shown to be small.

Alternatively, large farms may be constrained from putting a large proportion of their rice acreage under the new varieties by problems of labour shortage. The new varieties are most clearly profitable in situations where their adoption facilitates a change to double-cropping. Double-cropping results in a tremendous demand for labour at the critical period of harvesting the first crop and sowing the second. Also the labour input for sowing, weeding, harvesting and threshing will be almost, if not completely, doubled. This may also give rise to acute problems of labour supervision. In these circumstances, the higher proportion under the new varieties on small farms would reflect the comparative advantage of such farms for a labour-intensive technology. Such a finding shows the urgency of removing other restraints on adoption by small farmers.

Taking all rice-growing areas together, we may suggest a more general hypothesis, *viz*, that after the 'experimental period' the new varieties are adopted to a greater extent by small farmers than by large farmers. If the experimental period for a new variety is thought of as three crop seasons, the districts in Andhra were studied in the post 'experimental' period with respect to IR-8 — the most successful of the new varieties —, whereas the other districts from West Bengal, Uttar Pradesh and Punjab, were studied within the experimental period [2, 3, 4]. In both the experimental and post-experimental periods, large farmers adopted on only about 20-30 per cent of their acreage, whereas small farmers adopted on a much higher proportion of their acreage in the latter period (35-80 per cent). This hypothesis is supported by data from the PEO reports [16, 17, 20], in which the differences between large and small farms in proportion under the new varieties are much greater in the rabi season of 1968, than in 1967 (Table 4).

The finding that over time small farmers increase their acreage under the new varieties is consistent with the hypothesis that credit is a constraint to adoption among small farmers. Having obtained higher yields on acreage under the new varieties in the experimental period, small farmers will be able to purchase a greater quantity of variable inputs in the next period and expand their acreage under the new varieties. A second hypothesis, also consistent with these findings, is that uncertainty is the primary constraint to adoption among small farmers. Once those small farmers, who are able to face the uncertainty initially, have experience in methods of cultivation of the new varieties, they put a greater proportion of their acreage under the new varieties.

BAJRA-GROWING AREAS

In bajra-growing areas studied by the AERCs [7, 8], there is an apparent contradiction in terms of adoption behaviour. All the three villages in Kaira district, discussed earlier, have positive regression co-efficients — indicating that the proportion under the hybrid varieties increases with farm size. In contrast, the two talukas from Ahmedabad district have negative regression co-efficients, indicating that as farm size increases, the proportion of acreage under the high-yielding varieties decreases. The explanation may lie in the degree of dependence on the crop for income. In Kaira district, the large farms have a larger acreage under bajra than small farms; but in Ahmedabad district, large farms have a smaller acreage under bajra than small farms, owing to the possibilities of alternative cash crops such as cotton and groundnuts. In both districts, the correlation between total acreage under bajra and acreage under hybrid bajra was significant at the 1 per cent level. This suggests that the greater the degree of dependence on a crop for income, the greater the proportion of acreage put under the new varieties.

Data from the PEO reports [16, 17] do not show a significant relationship between proportion under the new varieties and size of farm for bajra (Table 4). It is possible that co-efficients were positive in some areas, and negative in others, cancelling each other to produce this result.

TABLE 3: ESTIMATED LINEAR REGRESSION FOR PROPORTION OF ACREAGE UNDER THE NEW VARIETIES AGAINST FARM SIZE USING AGRO-ECONOMIC RESEARCH CENTRE DATA

Area by Crop	Unrestricted Model							Restricted Model	
	Crop Year	Season	No Obs	Estimated Intercept	Estimated Slope	Estimated t Ratio	Sum of Squared Residuals	Estimated Intercept	Sum of Squared Residuals
Paddy									
Orissa 1	66	K	5	30.34	—1.35	—1.90	1371.57	22.30	3024.11
West Bengal (1-2)	67	K	8	21.73	—0.10	—0.32	2750.63	20.83	2797.16
West Bengal (1-2)	68	K	8	22.23	0.37	0.93	4060.76	25.51	4648.68
Andhra Pradesh 1	68	K	5	34.52	—0.33	—1.17	3259.23	28.14	4752.49
Andhra Pradesh 2	68	K	5	40.82	—0.95	—3.51*	1827.89	29.60	9352.79
Andhra Pradesh 1	68	R	5	81.69	—1.61	—2.28	1743.57	69.62	4765.55
Andhra Pradesh 2	68	R	5	58.75	—0.21	—0.49	3976.20	56.40	4291.18
Uttar Pradesh 1	68	K	6	21.94	—0.25	—4.25*	150.14	16.65	829.65
Punjab 1	68	K	10	24.32	—0.13	—0.87	3179.35	20.86	3479.75
Bajra									
Gujarat 1	67	K	6	26.77	2.17	1.44	8285.41	39.42	12571.88
Gujarat 2	67	K	6	—0.15	3.37	4.05*	2341.65	21.85	11965.64
Gujarat 3	67	K	6	11.58	4.82	4.98*	13180.74	48.05	94998.01
Gujarat (1-3)	67	S	6	66.46	3.81	1.39	19164.68	74.05	28403.97
Gujarat 8	68	K	7	77.50	—0.15	—1.08	6256.88	73.33	7716.09
Maize									
Bihar (1-2)	68	K	7	44.24	—0.39	—1.77	898.35	41.73	1459.41
Gujarat 6	65	K	6	80.62	—0.80	—1.75	585.50	25.13	1036.29
Gujarat 7	65	K	7	49.38	1.36	1.30	802.78	54.54	1073.13
Wheat									
Rajasthan 1	68	R	8	53.76	—0.39	—1.32	47275.88	44.49	60943.30

*Significant at 5 per cent level.
Sources: [2, 3, 4, 5, 7, 8, 9, 10, 11, 12, 14, 15].

TABLE 4: ESTIMATED LINEAR REGRESSION FOR THE PROPORTION OF ACREAGE UNDER THE NEW VARIETIES AGAINST FARM SIZE, USING PROGRAMME EVALUATION ORGANISATION DATA

Crop	Year	Season	No Obs	Unrestricted Model: Estimated Intercept	Estimated Slope	Estimated t Ratio	Sum of Squared Residuals	Restricted Model: Estimated Intercept	Sum of Squared Residuals
Paddy	67	K	6	19.13	—0.20	—1.12	13077.09	17.28	17173.62
Paddy	67	R	6	31.16	—0.29	—0.39	74479.78	29.12	77240.28
Paddy	68	R	6	63.82	—0.52	—0.74	63671.62	60.20	72377.09
Bajra	67	K	5	9.16	—0.01	—0.12	1847.58	8.87	1855.85
Bajra	68	K	6	37.00	—0.23	—0.94	15266.32	31.34	18619.77
Maize	67	K	6	23.66	0.03	—0.02	936.97	23.63	937.03
Maize	68	K	6	61.45	—0.46	—1.59	12925.94	51.71	21090.40
Wheat	67	R	6	22.94	0.21	1.63	7632.85	26.44	12699.50
Wheat	68	R	6	60.04	0.21	3.02*	2202.05	63.52	7226.00
Jowar	67	K	4	3.52	0.01	0.10	266.56	3.69	267.93
Jowar	67	R	5	0.45	0.10	2.76*	150.87	3.15	533.20
Jowar	68	K	5	35.59	—0.24	—0.77	13406.87	28.91	16045.85
Jowar	68	R	6	36.23	—0.44	—1.46	12717.63	25.09	19507.24

* Significant at 5 per cent level.
Sources: [16-20].

MAIZE, JOWAR AND WHEAT

For maize and jowar crops, there is not a significant relationship between proportion of acreage under the new varieties and size of farm. But, for wheat, the relationship is significant (Table 4). In contrast to rice, large farmers put a greater proportion of their wheat acreage under the new varieties than small farmers. The new wheat varieties are both labour and capital intensive, but not to the same extent as the new rice varieties. When the new rice variety facilitates a change to double-cropping, both variable cash costs and labour inputs will be virtually doubled. Data from a small sample of wheat growers in Kaira district indicate that capital and labour utilisation on the new wheat varieties was greater by a margin of 20 per cent.[5] The increased labour demand resulted mainly from the additional requirements for harvesting and threshing. The greater labour requirement for the new varieties does not seem to have been a disincentive to large wheat farmers putting a high proportion of their acreage under the new varieties.

For all crops, the PEO data show a remarkable increase in the proportion of acreage put under the new varieties by adopters between 1967 and 1968. (See intercept co-efficients, restricted model, Table 4).

III

Tenancy, Irrigation and Credit as Factors Affecting Adoption

In this section, we consider the validity of our restricted model, relating adoption to size of farm, by analysing whether there are other factors related to both adoption and size of farm.

Table 5 summarises the results of the linear regression model for proportion of land owned against farm size in eight regions studied by the AERCs [7, 9, 11, 12, 14, 15]. F tests showed no significant relation between proportion of land owned and farm size in these areas.

All-India data are used to analyse the relationship between tenancy and farm size in districts studied by the PEO, since these districts are a random sample of districts in the whole of India. Data for the proportion of land owned by size of farm group is given in Table 6. Clearly, there is some relation between the proportion of land leased-in and farm size.

In Table 7, we examine the proportion of pure tenants by size of farm group, since those who own no land may be expected to have the greatest disadvantage in adoption. Small farm-size groups have the greatest proportion of pure tenants. Unfortunately, there are no data available in the reports used showing the relation between tenancy and adoption in India as a whole. However, if tenants are less likely to innovate, the relation between tenancy and farm size, noted above, is a factor underlying the relation observed between adoption and farm size in areas studied by the Programme Evaluation Organisation.

It is clear from Table 8 that there is no relation between the proportion of land irrigated and size of farm in the areas studied by the AERCs [2, 3, 11, 12, 14, 15]. In no case is there a significant regression co-efficient; however, we found that the proportion of land irrigated was not the same between adopters and non-adopters. Availability of irrigation was an important factor in determining whether a farmer adopted. In East and West Godavari districts, almost the entire acreage on all farm size groups is irrigated. However, differential rates of adoption are observed between farm size groups, as well as high rates of non-adoption in all groups.

These results suggest that a high degree of irrigation availability is a necessary, but not a sufficient, condition for adoption. Neither is it a sufficient condition to equalise rates of adoption between farm size groups. We may conclude that irrigation availability is not a factor underlying the relation between adoption and farm size in these areas, since we do not find a positive relation between irrigation availability and farm size.

Water control may be a factor in the relation between adoption and farm size. Moorti has shown that the degree of water control has an important influence on adoption behaviour.[6] If there is also a relation between water control and farm size, then water control is a factor explaining the relation between adoption and farm size. Unfortunately, data showing the degree of water control were not available for this study.

To analyse the importance of irrigation availability in the areas studied by the PEO, we examine in Table 9 data for the relation between irrigation availability and farm size in India as a whole. In 1961, the proportion of farms with irrigation is similar between size of farm groups, excluding the extremely small and extremely large farms; but as farm size increases, the proportion of land irrigated on farms with irrigation tends to decline. However, since 1961, irrigation availability has increased considerably, notably by the installation of a large number of tubewells. This has occurred mainly on the larger farms,[7] which may have narrowed the differentials between size of farm groups noted above.

Lack of credit availability has often been cited as one of the major reasons for slower adoption on small farms. Therefore, we examined whether there was any relation between the proportion of cash expenditure met by the co-operatives and farm size, and whether adopters and non-adopters were similar in this respect.

Table 10 shows the relation between the proportion of cash expenditure met by the co-operatives and farm size in eight regions studied by the AERCs [2, 3, 11, 12, 14, 15]. In only three of the regions is the slope co-efficient significantly different from zero at the 5 per cent level. All three co-efficients are negative — indicating that as farm size increases, the proportion of cash expenditure met by the co-operatives decreases. Such a result indicates that large farms meet cash expenditure from other sources; PEO data indicate that the greater part of total cash expenditure is met from farmer's own funds [19].

To the extent that small farms use co-operative credit when large farms use their own funds, small farms may have higher cost credit than large farms. If the cost of credit is important in adoption, the relation between cost of credit and farm size is a factor in the relation between adoption and farm size.

Adopters meet a far greater part of their cash expenditure from co-operatives than do the non-adopters. The proportion of cash expenditure met by the co-operatives for adopters and non-adopters in four of the areas studied is as follows (see intercept co-efficients for the restricted model in Table 10):

Area	Adopters (Per Cent)	Non-adopters (Per Cent)
Bihar	92	25
Orissa	48	6
West Bengal (in 1968)	61	34
Andhra Pradesh 2 (rabi)	33	5

These data indicate a close relation between use of co-operative credit and adoption. However, the line of casuality is not clear. Lack of access to credit may stop adoption; or lack of desire to adopt results in low need for credit and hence less use of co-operative credit. Data from the PEO reports indicate that a significantly greater proportion of those with large farms are members of co-operatives than those with small farms, and that a significantly higher proportion of adopters are members than of non-adopters [16].

In combination, the results of this analysis suggest that few of those with small farms obtain co-operative credit, but, those who do, meet a high proportion of their cash expenditure from this source. It is these farms which adopt the new varieties.

IV

Uncertainty

Two sources of uncertainty need to be distinguished for this analysis. When a new variety is first introduced, lack of knowledge of methods of cultivation and the crop's response to different

TABLE 5: ESTIMATED LINEAR REGRESSION FOR PROPORTION OF LAND OWNED AGAINST FARM SIZE, FOR ADOPTERS AND NON-ADOPTERS† USING AGRO-ECONOMIC RESEARCH CENTRE DATA

Area by Crop	Crop Year	Season	No Obs	Unrestricted Model: Estimated Intercept	Estimated Slope	Estimated t Ratio	Sum of Squared Residuals	Restricted Model: Estimated Intercept	Sum of Squared Residuals
Paddy									
Orissa 1 A	66	K	5	75.08	1.64	2.03	1767.09	84.82	4194.11
Orissa 1 NA	66	K	4	75.85	3.13	3.83*	511.62	85.61	2133.13
West Bengal 1 A	67	K	8	87.11	0.56	2.98*	918.43	91.96	2280.67
West Bengal 1 NA	67	K	5	82.29	0.84	0.64	2012.97	85.12	2291.09
West Bengal 2 A	68	K	8	84.15	0.49	2.49*	994.07	88.50	2025.17
West Bengal 2 NA	68	K	5	93.21	—0.19	—0.38	179.75	92.46	188.29
Bajra									
Gujarat 1 A	67	K	5	98.24	0.02	0.02	583.29	98.33	583.33
Gujarat 1 NA	67	K	5	97.49	—0.05	—0.06	213.08	97.33	213.33
Gujarat 2 A	67	K	5	86.78	0.20	0.14	844.20	88.00	850.00
Gujarat 2 NA	67	K	3	89.84	—0.20	—0.03	4092.54	89.33	4096.00
Gujarat 3 A	67	K	5	90.82	0.80	6.65*	8.24	94.60	129.60
Gujarat 3 NA	67	K	3	106.57	—4.18	—1.99	494.99	96.30	2464.20
Maize									
Bihar (1-2) A	68	K	7	89.93	0.26	1.03	1216.37	91.64	1476.07
Bihar (1-2) NA	68	K	4	80.92	3.29	2.34	1280.58	90.31	2392.46
Wheat									
Rajasthan 1 A	68	R	5	66.09	0.22	0.35	2710.68	68.99	2824.52
Rajasthan 1 NA	68	K	5	88.23	—0.34	—0.41	4621.58	84.35	4882.18

† In the Table, A=Adopters, NA=Non-Adopters. * Significant at 5 per cent level.
Sources: [7, 9, 11, 12, 14, 15].

TABLE 6: AREA LEASED-IN AS A PROPORTION OF THE TOTAL ACREAGE OPERATED, BY SIZE OF FARM GROUP, 1960-61

Size of Farm (Acres) (1)	Area Operated ('000 Acres) (2)	Area Owned ('000 Acres) (3)	Proportion Owned (3÷2)
0.1-2.5	23320	19312	0.83
2.5-5	41991	35990	0.86
5-10	69333	61095	0.88
10-20	78445	73023	0.93
20-50	79931	76624	0.96
50 and above	36565	34071	0.93

Source: National Sample Survey, No 176, p 49.

TABLE 7: PROPORTION OF HOUSEHOLDS WHICH ARE PURE TENANTS BY SIZE OF FARM GROUP

Size of Farm (Acres) (1)	Total No of Households (2)	No of Households as Pure Tenants (3)	Proportion of Pure Tenants (3÷2)
0- 0.99	1067588	157334	0.15
1.0- 2.49	2263120	248069	0.11
2.5- 4.99	2191492	165817	0.08
5.0- 9.99	2023088	105806	0.05
10.0-14.99	838661	35775	0.04
15.0-29.99	822069	27270	0.03
30.0-49.99	260089	6325	0.02
Over 50	130013	5240	0.04

Source: Census of India, 1961, Vol I, Part III (ii), pp 18-9.

weather conditions result in a high degree of uncertainty. Secondly, the variety itself may be more prone to disease, or more sensitive to weather conditions, than traditional varieties. The former source of uncertainty will diminish over time, but the latter will not. Either type of uncertainty may be a cause of differential rates of adoption between farm size groups. Analysis of data collected at the Indian Institute of Management in Ahmedabad have clearly brought out the point.[9] Data were collected for 99 farmers growing traditional bajra varieties, and for 58 growing hybrid bajra in Mehsana district, Gujarat, in 1966 [21]. Cobb-Douglas production functions were estimated for both varieties; inputs included land, seed, number of irrigations, manure, nitrogen, phosphorous, hired and family labour, all measured in physical units; yield in kilogrammes was the dependent variable. The regression explained nearly 60 per cent of the variation in yields for the traditional varieties, but only 30 per cent for the hybrid varieties. The low explanation for the latter suggests that yields fluctuated widely between farmers using similar input levels, which gives some measure of the uncertainty associated with the crop.

Less direct evidence for the importance of uncertainty in adoption behaviour is found in analysis of data from Thanjavur District, collected in 1966 [22]. Those with a non-farm occupation were found to put a significantly greater proportion of their acreage under ADT-27 than those without such a job. Those with such an occupation have a steady source of income which is unrelated to their farming activity; thus, they are far better equipped to face fluctuations in their farm income. This finding supports the hypothesis that uncertainty is a major barrier to adoption among farmers. It may also indicate that high costs of cultivation inhibit adoption of the new varieties. However, it may also indicate the greater availability of resources to finance the greater cash costs of the new varieties. In practice, the uncertainty and the resource factors probably reinforce each other.

V

Conclusions

We have shown that, in the period 1966-67 to 1968-69, small farmers were lagging in adoption of the new seed varieties. If small farmers did not adopt the new varieties owing to the high costs of cultivation involved, we may expect differences in adoption levels between farm size groups to continue for an indefinite period in the absence of appropriate policy intervention. However, if the reason for non-adoption is the uncertainty attached to cultivation of the new varieties, the differences may diminish to some extent, without policy intervention, over time as experience with the new crop and increased knowledge about methods of cultivation reduce uncertainty.

The findings of this study are consistent with the hypothesis that either high cost of cultivation or uncertainty has caused differential rates of adoption between farm size groups. This analysis has shown that small farmers rely heavily on co-operative credit. Credit is required for the purchase of variable inputs. It may also be used as a form of crop insurance, so that in the event of lower production, the farmer can meet essential consumption requirements without recourse to the moneylender. The importance of irrigation availability in adoption may reflect the importance of uncertainty, in that, yield variability is less on irrigated land, or it may reflect the greater availability of cash for the purchase of non-farm inputs on more highly irrigated farms, which generally have a higher income per acre. The fact that, in Thanjavur in 1966, those with non-farm jobs adopted the new varieties on a greater proportion of their land than those without, may also be used to support either the hypothesis that uncertainty is the critical constraint to adoption or that credit is the chief problem.

Credit and uncertainty are not entirely separable. Increased use of credit, used for the purchase of irrigation water and plant protection materials, may reduce yield fluctuations and thus uncertainty. On the other hand, it may be uncertainty which makes credit a binding constraint. A small farmer might be quite willing to borrow from a moneylender to grow a new variety if the uncertainty associated with the venture could be reduced. Co-operative credit may be important in adoption because a co-operative is easier to appease than a moneylender in the case of a crop failure.

The joint problems of credit and uncertainty may also be relevant in the broader context of the overall cropping pattern chosen by the farmer. Many other high-income cash crops also involve a high cost of cultivation and a high degree of uncertainty. Vegetables, for example, involve a high level of cash inputs, and both the incidence of disease and market price fluctuations combine to cause very high income fluctuations from their cultivation. It is possible that the smaller proportion of acreage under cash crop on small farms is due to credit or uncertainty, or some combination of these factors.

This analysis has been largely oriented to the adoption problems of the small farmer. Particularly in the rice areas, among adopting farmers, the larger farmers seem to adopt on a smaller proportion of their acreage than the smaller farmers. This may well be due to problems of obtaining and managing labour. If that is the case, the solution lies in either reducing size of farms, increasing the mobility of labour, or mechanisation.

TABLE 8: ESTIMATED LINEAR REGRESSION FOR THE PROPORTION OF LAND IRRIGATED AGAINST FARM SIZE, FOR ADOPTERS AND NON-ADOPTERS† USING THE AGRO-ECONOMIC RESEARCH CENTRE DATA

Area by Crop	Unrestricted Model: Crop Year	Season	No Obs	Estimated Intercept	Estimated Slope	Estimated t Ratio	Sum of Squared Residuals	Restricted Model: Estimated Intercept	Sum of Squared Residuals
Paddy									
Orissa 1 A	66	K	5	80.99	0.45	0.84	780.24	83.68	965.35
Orissa 1 NA	66	K	4	78.31	—0.51	—0.47	460.38	76.71	510.59
West Bengal 1 A	67	K	8	93.53	—0.49	—0.18	1987.31	93.10	1997.69
West Bengal 1 NA	67	K	5	83.29	1.72	2.73	469.10	89.09	1636.92
West Bengal 2 A	68	K	8	87.43	0.54	2.81	978.59	92.29	2263.11
West Bengal 2 NA	68	K	5	86.09	0.42	0.34	1077.86	87.75	1119.39
Andhra Pradesh 1 A	68	K	5	100.00	0.00	0.00	0.00	100.00	0.00
Andhra Pradesh 1 NA	68	K	5	100.00	0.00	0.00	0.00	100.00	0.00
Andhra Pradesh 2 A	68	K	5	99.95	0.00	—0.27	4.46	99.91	4.57
Andhra Pradesh 2 NA	68	K	5	98.81	—0.32	—3.31	144.19	96.08	670.29
Andhra Pradesh 1 A	68	R	5	100.06	—0.15	—0.13	74.73	98.97	99.29
Andhra Pradesh 1 NA	68	R	4	96.47	0.16	2.21	4.99	97.25	17.19
Andhra Pradesh 2 A	68	R	5	100.00	0.95	0.11	0.15	100.00	0.12
Andhra Pradesh 2 NA	68	R	4	100.13	—0.01	2.25	0.77	99.96	2.72
Maize									
Bihar (1-2) A	68	K	7	35.22	0.75	1.05	9674.72	40.11	11806.09
Bihar (1-2) NA	68	K	4	23.01	2.15	4.66*	68.97	29.15	818.6198

† In the Table, A=Adopters, NA=Non-Adopters. * Significant at 5 per cent level.
Sources: [2, 3, 11, 12, 14, 15].

TABLE 9: IRRIGATION AVAILABILITY AND FARM SIZE IN INDIA

Farm Size Group (acres)	Ratio of Farms with Irrigation to the Total No of Farms in Group	Ratio of Irrig Acreage, Per Farm with Irrigation, to Average Size of Holding
0-1	0.38	0.89
1-5	0.48	0.63
5-10	0.48	0.54
10-15	0.46	0.46
15-25	0.45	0.39
25-50	0.44	0.29
50 and above	0.39	0.22

Source: Derived from the Sixteenth and Seventeenth Rounds Estimates of the National Sample Survey, 1959-61.

Notes

1 See, for example, *Economic and Political Weekly*, Volume V, Number 13, p A-15, Number 14, p 603.
2 See V S Vyas, D S Tyagi, and V N Misra, "Significance of the New Strategy of Agricultural Development for Small Farmers", Agro-Economic Research Centre, Sardar Patel University, 1968.
3 Because of unsatisfactory features of a linear regression model with a proportion as the dependent variable, the results were confirmed using a logit model.
4 In a regression framework, an omitted variable results in estimated co-efficients of included variables being biased. Therefore, we tested whether three factors thought to influence adoption — proportion of land owned, proportion of land irrigated and proportion of cash expenditure met by the co-operatives — were related to either farm size or adoption.
5 G O Parikh and R D Sevak, 'Relative Profitability of Improved and Deshi Wheat: A Case Study', *Industrial March*, January-March 1971, p 48.
6 John W Mellor and T V Moorti, 'Dilemma of State Tubewells', *Economic and Political Weekly*, Volume VI, Number 13, March 27, 1971, p A-37.
7 For example, see A Rudra, A Majid and B D Talib, 'Big Farmers of Punjab', *Economic and Political Weekly*, Volume IV, Number 39, p A-143.
8 See also N S Jodha, 'Land-based Credit Policies and Investment Prospects for Small Farmers', *Economic and Political Weekly*, Volume VI, Number 39, p A-143.
9 M Schluter and R Longhurst, "Suitability of the New Technology for the Small Farm: An Analysis of the Introduction of High-Yield-

TABLE 10: ESTIMATED LINEAR REGRESSION FOR THE PROPORTION OF CASH EXPENDITURE MET BY THE CO-OPERATIVES AGAINST FARM SIZE, FOR ADOPTERS AND NON-ADOPTERS,† USING AGRO-ECONOMIC RESEARCH CENTRE DATA

Area by Crop	Unrestricted Model: Crop Year	Season	No Obs	Estimated Intercept	Estimated Slope	Estimated t Ratio	Sum of Squared Residuals	Restricted Model: Estimated Intercept	Sum of Squared Residuals
Paddy									
Orissa 1 A	66	K	5	59.78	—2.03	—2.10	2523.90	47.71	6245.21
Orissa 1 NA	66	K	4	4.96	—0.53	2.02	26.69	5.71	190.42
West Bengal 1 A	67	K	8	18.05	—0.60	—2.77*	1416.79	12.47	3223.64
West Bengal 1 NA	67	K	5	8.76	1.01	0.76	2090.88	12.16	2492.60
West Bengal 2 A	68	K	8	88.38	—3.11	—4.47*	12585.35	60.62	54537.87
West Bengal 2 NA	68	K	5	47.25	—3.24	—1.57	3018.84	34.45	5393.40
Andhra Pradesh 1 A	68	K	5	20.81	—0.16	—0.46	4852.25	17.78	5188.05
Andhra Pradesh 1 NA	68	K	5	22.19	—0.85	—1.55	3467.55	14.44	6261.27
Andhra Pradesh 2 A	68	K	5	13.39	—0.22	—1.62	438.44	10.85	821.61
Andhra Pradesh 2 NA	68	K	5	5.82	—0.08	—0.36	769.23	5.12	803.19
Andhra Pradesh 1 A	68	R	5	1.32	0.59	1.18	877.57	5.74	1282.34
Andhra Pradesh 1 NA	68	R	4	6.50	—0.27	—0.41	426.09	8.95	533.80
Andhra Pradesh 2 A	68	R	5	37.69	—0.41	—0.71	7047.78	33.16	8222.06
Andhra Pradesh 2 NA	68	R	4	2.11	0.23	0.34	999.55	5.25	1176.09
Maize									
Bihar (1-2) A	68	K	7	89.93	0.26	1.03	1216.37	91.94	1476.07
Bihar (1-2) NA	68	K	4	19.69	—1.76	4.75*	44.25	25.42	1543.37

† In the Table, A=Adopters, NA=Non-Adopters. * Significant at 5 per cent level.
Sources: [2, 3, 11, 12, 14, 15].

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Appendix A

The districts have been numbered as follows in Tables 1, 3, 5, 8, 10.*

West Bengal 1: Sainthia Block, Birbhum District.
West Bengal 2: Rampurhat Block II, Birbhum District.
Andhra Pradesh 1: West Godavari District.
Andhra Pradesh 2: East Godavari District.
Gujarat 1: Piplag Village, Nadiad Taluka, Kaira District.
Gujarat 2: Khadol Village, Borsad Taluka, Kaira District.
Gujarat 3: Asodar Village, Borsad Taluka, Kaira District.
Gujarat 4: Nadiad Taluka, Kaira District.
Gujarat 5: Dehgam Taluka, Ahmedabad District.
Gujarat 6: Jambua Village, Dohad Taluka, Panchmahals District.
Gujarat 7: Gangarda Village, Dohad Taluka, Panchmahals District.
Gujarat 8: Ahmedabad District.
Bihar 1: Baniapur Block, Saran District.
Bihar 2: Hawthwa Block, Saran District.
Rajasthan 1: Kota District.
Punjab 1: Amritsar District.
Orissa 1: Cuttack District.

* The different levels of aggregation reflect different levels of aggregation of the data in the reports.

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On the Question of the Mode of Production in Indian Agriculture

A Preliminary Note

Paresh Chattopadhyay

In recent times, scholars have brought out a lot of empirical data on various aspects of Indian agriculture. These data throw some light on the mode or modes of production in our agriculture. However, the theoretical discussions on this question have not always been free from confusion.

The following is an attempt at analysing some of the theoretical issues involved on the basis of Marxism. This is, however, only a preliminary note.

The first section serves as a preface and deals with the widely prevalent question of the applicabi- mode of production itself. The second section deaand the third sections discuss the question of the its explicit formulations. In each section, the uuthls with the question in its implicit and the third in its explicit formulations. In each section, the author takes into account the positions of the most important representatives of the particular line of thought. Attention is confined almost exclusively to the works of the Indian academic scholars.

I

A LARGE number of social scientists in India hold that it is not possible to apply the Marxist method of analysis to the concrete situation of India. [1] Two important representatives of this opinion are the economist K N Raj and the sociologist A Beteille. In the course of a conference organised by the International Economic Association in Colombo in 1969, Raj is reported to have referred to the "heterogeneity of socio-economic structure" and the "variety of social conflict" in developing countries like India, and the inability of the Marxists to tackle the situation because they are supposed to limit their analysis to "two or at most four classes" [2]. In the same vein, Raj went on to claim that the Marxist definition of class was inadequate to cope with a 'mixed' developing society such as India in which "pre-capitalist social categories co-exist with capitalist ones" [3].

Similarly, Beteille thought that the Marxist concept of class which was "formulated and refined in the context of industrial society" would encounter difficulties, while being applied to the agrarian societies, i e, "societies of the Indian kind", inasmuch as "the nature of social divisions is different in agrarian as opposed to industrial societies" [4].

In both these presentations, criticism against Marxism is *general* as well as *specific*. The general aspect of the criticism consists in the contention that Marxism, which arose and developed in a capitalist or 'industrial' society, is inapplicable in a society which is (at least to a considerable extent) pre-capitalist or 'agrarian'. The second aspect, closely related to the first, consists in the proposition that Marxist analysis, based on a simplified social division is applicable — if at all — to an advanced capitalist society where the two antagonistic classes are thrown in sharp relief but is singularly inapplicable to an economically backward society where social divisions are extremely complex.

To start with, an extremely grave methodological error is reflected in the above statements. As Althusser has reminded us, the error consists in the confusion between the *object* of knowledge and the *real object*, between the concept of reality and reality itself [5]. One must make a distinction, in Marx's writings, between his theoretical-conceptual work and the concrete analysis of a given historical situation and it would be a grave error to confuse the one with the other. Thus, broadly speaking, his writings on philosophy and the bulk of his writings on economics belong to the first category while his historical writings appertain to the second. It is in this sense that Marx makes a distinction between the 'method of presentation' and the 'method of investigation' [6]. Failure to make this distinction would lead, to use Althusser's terminology, either to empiricist idealism or to speculative idealism. In the first case, one would reduce the concept of reality to reality itself and in the second case one would reduce the reality to the concept of reality. Thus, those who deny the applicability of Marxist analysis to the reality of the Indian situation actually confuse the Marxist concept of reality with reality itself. The following is the classic formulation of the position by Marx himself, "Hegel conceived the illusory idea that the real is the result of thinking which causes its own synthesis, its own deepening and its own movement; whereas the method of advancing from the abstract to the concrete is simply the way in which *thinking* assimilates the concrete *[das Konkrete anzueignen]* and reproduces it as a *concrete* mental category *[geistig Konkretes]*. This however, is by no means the process of evolution of the *concrete* itself *[Entstehungsprozess des Konkreten selbst]*" [7]. Strictly speaking, Marxist analysis of the capitalist mode of production does not correspond to the reality of *any* capitalist country at *any* time. For him, the specific character of the capitalist system is revealed in the whole structure of its inner essence [8]. This specific difference is the *theoretical object* of Marx. That is why the capitalist mode of production, which he studied, is a mode of production with two classes — contrary to the reality of capitalism anywhere in the world, including the country where it reaches its most advanced from (England) which only serves as an 'example' for the development of Marx's theory [9]; for Marx needs "present only the inner organisation of the capitalist mode of production, in its *ideal average*, as it were" [10]. Already, towards the end of the nineteenth century, some economists in Russia were questioning the scientific validity of Marx's analysis on the score that it did not correspond to the reality: one of the well known among them was Peter Struve to whom Lenin replied as follows: "Struve confuses the abstract theory of realisation



Shri A.V. MODY

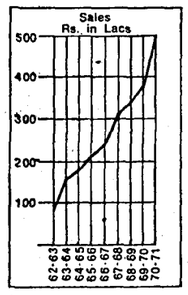
UNICHEM'S
Year of all-round progress 1970-71

NEW PRODUCTS

The Company has successfully introduced a few new products. Trinergic, Univil—the "Pill"—& Unimezol are some of them. Trinergic has been well accepted by the medical profession and holds out hopes of further progress. The Company has made a bold attempt to go for blister packing by encouraging the local manufacturer to make the heeded machinery. This attractive new method of packing is welcomed by the trade and medical profession. Unichem is working intensively to develop new drugs based on research in its laboratory and other institutes in the country and hopes to release within a year two new products based on fermentation technique. One new life saving drug is being released this year.

SALES

Domestic Sales have recorded an overall increase of 33% over that of previous year. The Company's Export Performance was quite encouraging and it has showed an increase of 38% over that of the previous year. The exports have crossed two million rupees. In recognition of the company's work in developing exports of non-traditional items like drugs the company was given the second best performance award for the year 1969-70 by Basic Chemicals, Pharmaceuticals and Soaps Export Promotion Council.



PROFITS

The profits have not shown much improvement despite substantial rise in the Sales. The declining profit margin in pharmaceutical industry appears to be a world wide phenomenon.

BUREAU OF INDUSTRIAL COSTS & PRICES INQUIRY

The Government of India have entrusted the enquiry and compilation of cost structure in the basic chemicals and formulations of pharmaceutical industry to the Bureau of Industrial Costs and Prices. The recommendations of the Bureau, it is feared, are likely to affect substantially the entire profit pattern of the pharmaceutical industry. We do hope, however, that no drastic steps will be taken which will block the progress and researoh activities of this very vital industry.

ISSUE OF BONUS SHARES & DIVIDEND

The Directors have proposed to issue bonus shares in proportion of one to six, for which a resolution is being placed before the meeting, subject, however, to approval of the Controller of Capital Issues. These shares shall rank pari passu for dividend with existing equity shares and shall be entitled to dividend that may be declared in respect of the accounting year in which the bonus shares may be actually issued and subsequent years.

In view of the increasing demand for finance for working capital and to conserve scarce liquid resources the company has maintained its dividend at Rs. 10 per equity share of Rs. 100/- each.

PERSONNEL

The relations between management and employees at all units of the Company during the year were very cordial and satisfactory. The employees' untiring co-operation, loyalty and devotion has been largely responsible for achieving substantial progress during the year.

A CRUSADE RECOGNISED

Looking to the services rendered by Shri A. V. Mody through Unichem in many allied activities, he was conferred the title of "Padma Bhushan" in the *Republic Day Honours* List, 1972.

CHAIRMAN'S REMARKS

Referring to the developments that had taken place during the year the Chairman and Managing Director Shri A. V. Mody observed :—

The last year was very eventful in the life of our country. The nationwide elections for Loksabha established a stable Government at the centre under a very pragmatic and able leadership. We faced a major threat to our borders in the last month of the year. The problem of refugees put a heavy strain on our national resources But through all these trials and tribulations our nation has risen as a great dynamic force. This I would call a great achievement of 1971.

This achievement should lead us to concentrate on maintenance of this unity of national purpose. We are rather prone to quarrel too much amongst ourselves. Let us now devote our energies to build one sound and economically powerful nation. For us the ultimate victory will have to be economic. The common man will feel the stake in national endeavour only if his living shows any improvement. Since a major aid-giving country like U.S.A. is estranged due to recent Indo-Pak war, the only lesson we have to learn is to become more self-sufficient and not to seek another aid-giver. We will have to learn to live within our own means. We have now to practice "Swadeshi" right in earnest. The import or manufacture of luxury articles which are only needed by few will have to be shelved for the time being. The status symbol value attached to "imported" or things made by "foreigners" will have to be rooted out from our national value system. This psychological change is very essential, otherwise any crash programme for import substitution without these social priorities is likely to do more harm than good to the country.

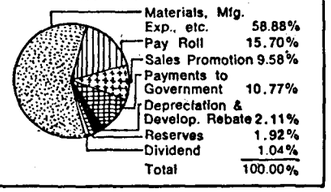
There is another angle which will also have to be taken into account; that is the expansion of exports. Your company has been at it for the last 17 years. Our exports have now crossed the mark of 2 million rupees. This is a sale of non-traditional goods like ethical pharmaceutical specialities. Unlike the foreign companies in India who have established market abroad for their brand names, your company had to struggle hard to create an image of "Indian" drugs and then of Unichem products. All pioneering efforts are painstaking but really worthwhile in the long run. The Government should create an export zone for special manufacture of products for exports where the necessary inputs of foreign exchange should be made available with the specific understanding that there must be a net addition to foreign exchange of atleast 25 to 30% by way of export earnings. Such a zone in a place like Bombay which is the main centre of pharmaceutical industry will be one of the solutions to boost our export efforts. In the final analysis cutting coat according to cloth has its limitations. We have to make larger piece of cloth also available. The increase in our international trade is the only answer and we have now to develop it with all aggressiveness at our command. We in Unichem are doing it in our humble way.

FIVE YEAR SUMMARY OF RESULTS

(Rs. in Lacs)

Year to 30th September	1971	1970	1969	1968	1967
1. Sales	495.4	371.5	329.9	303.6	238.7
2. Profit after Taxes	13.8	13.7	14.6	14.0	10.2
3. Dividend	10%	10%	10%	10%	11%
4. Share Capital	54.0	54.0	54.0	45.0	45.0
5. Reserves & Surplus	68.3	57.1	47.9	44.2	32.1
6. Total Assets	381.6	301.3	300.4	237.6	198.3

Distribution of Income 1970-71



3 BROTHERS

A-40

with concrete historical conditions governing the realisation of the capitalist production in some one country and some one epoch. This is just the same as confusing the abstract theory of ground rent with the concrete conditions of the development of capitalism in agriculture in some one country .... What is the scientific value of the theory of realisation? It has exactly the same value as have all the other postulates of Marx's abstract theory. If Struve is bothered by the circumstance that 'perfect realisation is the ideal of capitalist production, but by no means its reality' we must remind him that all other laws of capitalism, revealed by Marx, also depict only the ideal of capitalism and not its reality. ... The theory of capital assumes that the worker receives the full volume of his labour power. This is the ideal of capitalism, but by no means its reality. The theory of rent presupposes that the entire agrarian population has been completely divided into landowners, capitalists and hired labourers. This is the ideal of capitalism, but by no means its reality. The theory of realisation presupposes the proportional distribution of production. This is the ideal of capitalism, but by no means its reality" [11].

In his analysis of a concrete historical situation, on the other hand, Marx no more confines his attention to two classes but takes full account of all the social categories that play any significant role in the given situation. Thus, discussing the concrete situation in France in 1850, Marx distinguished seven different classes which played important roles in the political scene of the country: financial bourgeoisie, industrial bourgeoisie, commercial bourgeoisie, petty bourgeoisie, peasantry, proletariat, and sub-proletariat [12]. Two years later, Marx attributed the success of the bourgeois republic against the proletariat in France to the multiple alliance of the financial bourgeoisie, the industrial burgeoisie, the middle class, the petty bourgeoisie, the *lumpen proletariat* and the peasantry [13]. We should also point out that the last volume of his principal theoretical work ends at the point where he was coming to grips with the reality of the classes. After noting that even in England the stratification of classes does not appear "in its pure form" and that "even here middle and intermediate strata obliterates lines of demarcation everywhere" [*Vertuschen uberall die Grenzbestimmungen*], he points to "the infinite fragmentation [*unendliche Zersplitterung*] of interest and rank into which the division of social labour splits labourers as well as capitalists" [14].

Indeed, while holding that it is the direct relationship of the owners of the conditions of production to the direct producers which shows the innermost secret of the entire social structure, Marx insisted that even the *same* economic basis shows, due to "innumerable different empirical circumstances [*Zahllos verschiedne empirische Umstande*] infinite variations and blendings [*unendliche Variationen und Abstufungen*] in appearance, which can be grasped only by analysis of the empirically given circumstances" [15].

From what we have said above, the following lines from Beteille show the methodological confusion that he has been subject to: "It would be well to remember that a dichotomous division of society into the propertied and the propertyless is in some sense fundamental to the Marxian analysis of social change. In spite of this, Marx himself was *constrained* to use schemes with multiple terms in his own analysis of empirical reality" [16]. Concerning the 'heterogeneity of socio-economic structure' on the ground of which social scientists like Raj disqualify Marxism for India, we submit that even if we leave aside Marx's writings dealing with the *concrete* situation of a country during a particular period, it can be easily shown from his *theoretical* discussion itself that he took full account of the complexity of the reality as an *object of analysis*. In fact, it is essential to understand that Marxist concept of reality, since a totality is completely different from the speculative-idealist concept of reality [17]. In the Marxist concept, the unity of the totality is constituted by a certain type of complexity, comprising different factors at different levels that co-exist in the structured complex unity, influencing one another according to the specific mode of determination, but ultimately governed, as Engels pointed out, by the particular economic base [18]. Already in his polemic against Proudhon, Marx brought out the essence of this concept. "The relations of production of every society", wrote he, "constitute a whole. Mr Proudhon considers economic relations as so many social phases, begetting one another, resulting one from the other as the antithesis from the thesis and realising in their logical succession the impersonal reason of humanity. The only disadvantage in this method is that, in coming to examine only one of the phases, Mr Proudhon cannot explain it without resorting to all the other relations of society, the relations that however he has not yet made his dialectical movement to engender. When thereafter Proudhon by means of pure reason proceeds to give birth to the other phases he treats them as if these were the new born infants, he forgets that they are of the same age as the first .... How, indeed, could the single logical formula of the movement, of succession, of time explain the body of society in which all the relations simultaneously co-exist and support one another [*le corps de la societe dans lequel tous les rapports co-existent simultanement, et se supportent les uns les autres*]"? [19]. A decade later, while preparing his principal theoretical work, he made his position clearer and more rigorous. There, with reference to the categories of political economy, Marx showed that one can never go back to the origin of 'simple' production because "when we speak of production we always speak of production at a definite stage of social development — of production by individuals in society" [20]. He showed that the "simplest economic category" always presupposes the existence of "an already given concrete living whole [*Gegebnen Konkreten, lebendigen, Ganzen*] and that the simplicity itself is the product of a complex process [21]. Thus, characteristically, the category of the isolated Crusoe, the simplest producer, appears only in *developed capitalist society, the society*, in other words, which witnessed the most developed form of social production.

All this does not, however, amount to a *pluralist* concept of reality, where all the factors involved would have the same weight. On the contrary, the coexistence of multiple factors and relations united in the totality is always subject to one dominating structure — introducing a specific order in the articulation of the factors and relations. "In every form of society", wrote Marx, "there is one definite production (*bestimmte Produktion*) which determines (*anweist*) the position and importance of all other productions, and its relations determine the position and importance of all other relations" [22].

Thus, contrary to what many people think, Marx very much took account of the complexity of a particular social formation. Not only that; while studying capitalism Marx had to study the social formations that preceded it. He pointed out that "the economic structure of the capitalist society has grown out of the economic structure of the feudal society" and, in order to set the

capitalist mode of production in proper perspective, he traced the history of the expropriation of the agricultural producer "through its various phases in different orders of succession and at different periods [*Verschieden Phasen in verschiedener Reihefolge und in Vershiedenen Geschichts — epochen*]" [23].

In this connection, we consider it superfluous to discuss the works of the outstanding Marxists like Engels, Lenin, and Mao Tse-tung, all of whom, in their analyses of concrete historical situations, took full account of the heterogeneity of the given socio-economic structure as well as the variety of social conflict engendered thereby. Particularly, the victory of the revolutions in Russia and China could not have been achieved without the Marxists in those countries taking into full consideration the complexity of a 'mixed' society in which pre-capitalist (or 'agrarian') social categories coexisted with the capitalist (or 'industrial') social categories.

II

The contemporary discussion on the mode of production in Indian agriculture began from the finding of the Farm Management Studies, from the different states during the mid-1950s, that an inverse relationship held between farm size and productivity per acre.

With most of the participants in the discussion the question of the mode of production as such was of secondary importance. They were primarily interested in the efficiency-optimality aspect of some particular productive arrangement. Nevertheless, the choice of some particular mode of production, in preference to others, was very much there, albeit implicitly. We shall with three of the most important representatives of this line of thought — A K Sen, V M Dandekar, and C H Hanumantha Rao. Dandekar's particular work we shall be referring to was not, strictly speaking, inspired by the Farm Management Studies, but we have chosen it for the basic similarity of the position it manifests with the works of the other two.

One of the most interesting interpretations of the phenomenon of inverse relationship was offered by A K Sen [24]. He found the explanation of the phenomenon in the peasant family cultivation in small farms and wage-based capitalist cultivation in big farms — farm size being measured in terms of farm area. As production is carried on in the big farms up to the point where marginal productivity of labour equals prevailing wage and in the small farms up to the point where marginal product equals zero or is at least less than the ruling wage, small farms have a higher productivity per acre compared to the big farms, and, in this sense, are more 'efficient'. As is evident, the whole argument depended on the existence of a 'wage-gap' — in the sense of the equilibrium labour cost in family-labour-based farms being less than the wage in the hired labour-based farm. Sen, of course, added that the type of efficiency in question was static efficiency on the basis of *given* resource allocation, but from a dynamic point of view, particularly with reference to the future growth of output, hired-labour-based capitalist farms might be more efficient than family-labour-based farms [25]. Similarly V M Dandekar, drawing upon N Georgescu Roegen's earlier work [26], argued that, given 'overpopulation' as manifested in labour's shadow rental falling below the market wage, individual peasant proprietorship based on family labour would lead to higher aggregate output than the capitalist farm of wage-labour organisation and in this sense the former was more 'efficient' than the latter [27]. Though Dandekar did not quite accept Georgescu Roegen's solution of individual peasant holdings as the optimum agrarian structure in 'overpopulated' country like India and prescribed "an organisation of the agrarian sector in large units of land and population, feudal in theory, modern in technology, and oriented to a socialistic purpose" — a somewhat confusing formula —, he and Georgescu Roegen based their argument on the logic of 'wage-gap' referred to earlier [28]. C H Hanumantha Rao went even further than Sen and Dandekar in his advocacy of family-labour-based small farms on the basis of 'efficiency' inasmuch as he found no objection, from the 'efficiency' point of view, to their continuation under the landlord-tenant system. Referring to the Farm Management Studies' finding, that the input of labour is highest for predominantly tenanted holdings and that their output per acre is higher than for hired-labour-operated large ownership holdings, Rao first dispelled the apprehension that the tenants would be discouraged to invest in mobile input factors, like bullocks and implements, under the fear of the resumption of land by the landlords. After maintaining that investment in permanent improvements on land would also not be discouraged in tenanted holdings situated in fertile coastal or irrigated areas Rao found a mechanism of encouraging the investment in modern inputs while guaranteeing the survival of the landlord system — *viz*, a sharing of inputs between landlords and tenants. In this, he felt strengthened by the already existing 'concealed share cropping tenancy' which took account of sharing inputs as well between landlords and tenants. While conceding that agriculture would become more 'dynamic' in the case of ownership right being conferred on tenants Rao, on the basis of "past experience in India", was prepared to accept "a more pragmatic and growth oriented tenure policy" by insisting on input share between the landlord and the tenant and the granting of liberal credit to the latter [29].

In a subsequent discussion, Rao carried his analysis further and 'proved' that, under conditions of economic certainty with little scope for decision making, the share-cropping system is 'efficient'. He conceived of a "bargaining situation" where cost sharing would prove profitable to both the landlord and the tenant, and upheld the superiority of share cropping over fixed-rent system, by 'proving' almost to the landlord, how the former permitted him to benefit from certain situations. Rao, of course, conceded that share cropping might cease to be efficient as "profitable modern inputs assume significance" [30].

One can discuss peasant agriculture based on family labour under two economic categories: natural economy and commodity economy. Strictly speaking, under the first system, the small holding peasants, though living in similar conditions, do not enter into relations with one another. Each individual peasant family is almost self-sufficient; it itself directly produces the major part of its requirements and thus "acquires its means of life more through exchange with nature than in intercourse with society" [31]. Almost by definition such a system signifies infinite fragmentation of means of production, not social but isolated labour and a tremendous waste of human energy — in a word, a system in which the material and spiritual prerequisites of production and reproduction on a rational basis are out of the question [32]. The acceptance of such a system as 'efficient' under the *seemingly* valid argument of the absence of alternative employment opportunities of labour, obviously signifies the acceptance of a backward and stagnant agrarian structure as a continuing process [33]. When, however, we discuss peasant agriculture based on family labour

within the system of commodity production, the 'efficiency' argument becomes particularly grotesque. To start with, we have under the system an additional 'efficiency' argument for the retention of the family labour-based peasant agriculture — not expressly discussed by the economists referred to earlier. As the peasant is not yet working under the capitalist mode of production, the market price of his products need not rise high enough to afford him average profit, and still less a fixed excess above this average profit in the form of rent as there is no separate existence of a landlord. The market price of agricultural product, in this situation, need not rise either to the value or the price of production of the product. This is an important reason for the relative cheapness of the agricultural product under this system compared to the capitalist system. Thus to the 'factor-efficiency' — in the sense of higher intensity of labour-use resulting in higher aggregate output — is added the 'price-efficiency' resulting in a sort of 'consumer's surplus' for the purchasers of agricultural products.

Thus, with these economists, productivity is for all practical purposes almost the sole criterion for choosing a particular mode of production in preference to others. (Even when the aspect of employment is stressed by them it is stressed primarily insofar as it contributes to higher production.) This is, of course, a particular form of 'commodity fetishism' which prevents one from seeing the relations between man and man in the process of production. As is well known, the relations of production alone reveal the mode of exploitation of labour under a particular mode of production and it is this vital aspect of production which most of our academic economists, in their search for efficiency and optimality, scrupulously avoid. *A la rigueur*, one can perhaps say that, only under the system of natural economy are the producers least subject to exploitation. "If the agricultural production of the small peasant remains outside the sphere of commercial production", wrote Kautsky at the end of the nineteenth century, "and if it forms a part of the household it also remains outside the sphere of the centralising tendency of modern production. However irrational his parcellised production may be, whatever wastage of productive forces it may lead to, he remains faithful to it as his wife remains faithful to the miserable household which, with all the imaginable efforts, gives her only the most wretched results but which is the only place in the world where she does not depend on another's will and is not exploited by others" [34].

Sen is almost the only economist — in the context of our discussion — who explicitly used the model of natural economy as the starting point of his full-fledged analysis of the mode of production in agriculture [35]. The rest of the discussion on agriculture by the economists under consideration — including Sen — was firmly set in the context of commodity production. In the beginning of commodity production, the greater portion of agricultural produce is still considered as a direct means of subsistence by the producers themselves and only the excess over and above the direct requirements appears as commodities. We showed earlier that the market price of agricultural products, produced by independent peasant households based on family labour, is relatively low compared with the price of the same products produced by the capitalist mode of production. But this low price is certainly not the result of higher productivity of the producers under independent peasant household economy but the result of their poverty. In fact, this is the consequence of the fact that a portion of the peasant's surplus-labour is "bestowed gratis upon society and does not at all enter into the regulation of price of production or into the creation of value in general" [36]. As is well known, the inevitable result of commodity production is the dependence of producers on the market and though, in the first stage of commodity production in agriculture, direct sale of products to the consumers prevails, gradually, with the increasing transformation of products into commodities, markets become wider and less localised with the consequent rise and growth of merchants and money-lenders [37]. At this stage of development, the production is only formally not capitalist, in the absence of wage-labour, and "the peasant can only formally be regarded as a simple commodity producer. *De facto*, he usually has to deal with the *capitalist* — the creditor, the merchant..." [38]. In these circumstances, behind the facade of 'efficiency' of the family-labour-based agriculture, lies the stark exploitation of the cultivator by merchant capital and usurious capital, and this is manifested in his over-work and chronic underconsumption. If such is the situation under the system of owner-cultivation, it is far worse under the system of tenancy, such as share-cropping, inasmuch as the landlord becomes a sharer, together with the merchant and the money-lender, of the produce made out of the surplus-labour of the tenant-cultivator.

III

Those in India who have explicitly brought to the forefront the question of the mode of production in Indian agriculture constitute only a very small minority among our academic scholars discussing agriculture. Of them it is on three scholars, all of whom seem to accept Marxism, that we focus our attention — Sulekh Gupta, Ashok Rudra, and Utsa Patnaik.

Gupta's whole purpose was to show what changes Indian agriculture has been going through since the transfer of power. Starting from the higher rate of agricultural output India showed during the period in question compared with the half-century preceding 1950-51 Gupta first pointed to a considerable expansion in recent years in the volume of fixed capital investment as well as working capital in Indian agriculture. He noted the existence of a highly differentiated peasantry in the countryside as regards ownership of land and capital resources, and, on the basis of this, he showed that the proportion of wage-labour in total labour employed on the farms increased directly with the increase in the size of the farm. Given the increasingly competitive situation in agriculture, the big farmers, favoured on the side of profit as well as on that of cost, would, Gupta observed, flourish more and more and cause the increasing poverty and ultimate ruination of the small farmers, though the spread of the whole process depended on various factors. He maintained that two-thirds of the total cultivated area of the country was already under commodity production. As regards the specific question of the capitalist mode of production in agriculture, he took the norm prevalent in UP, where farms above 20 acres, according to him, employed more than half of their labour as hired labour; and he concluded that almost one-third of land and capital employed in Indian agriculture had come under what he called 'capitalist farming' [39].

Rudra, in his turn, after being profoundly dissatisfied with some of the current assertions about the allegedly 'revolutionary' changes in Indian agriculture, set out to see, on the basis of a comprehensive statistical analysis of the empirical data, what was actually happening in our agriculture claiming to be "more interested in the Red Revolution than in the green one" he wanted really to get at what he called 'capitalist farmers'. With this intention

he, along with two of his colleagues, studied a sample of 261 farms, all above 20 acres, in Punjab. By defining farms above 20 acres as 'big' farms — or, what he thought to be the same thing, as 'large-scale' farms — Rudra justified the rationale of his choice of sample, in the context of his search for the as yet 'undefined' capitalist farms, by assuming that the intersection of the set of capitalist farms and the set of 'large farms' would produce a non-null set, containing most of the elements of the set of capitalist farms. By analysing the relevant data, he found that, between 1955-56 and 1967-68, there had been a rapid expansion of large-scale farming, on the basis of the land owned by the big farmers, and a corresponding increase in the degree of mechanisation in big farms. Along with these trends there had been a steep rise in receipts, expenditure, and gross income — in terms of cash — for farms above 75 acres, for which again, value of output per gross acre cultivated went up sharply with size. Proportion of cash payment to payment in kind to farm servants rose systematically with size. Finally, he faced the question as to how far, on the basis of his quantitative findings, he was able to discover what he originally had set out to do, *viz*, the capitalist farm. He set up five criteria which, he said, every farm must simultaneously satisfy in a positive sense in order to qualify as a capitalist farm — owner-cultivation rather than leasing out of land, market-mindedness, profit-mindedness, tendency to employ hired labour, and tendency to use 'modern' capital goods. He concluded that as no farm, under study, satisfied these criteria in the sense given above there was no capitalist farm. [40]

Utsa Patnaik, on the basis of a survey of 66 big farms scattered over a wide area of the country showed that a new class of capitalist farmers was emerging — though the rate at whch capitalist development was occurring varied widely in different regions, depending on many historical factors. The reality of capitalism was, however, undeniable [41]. To us, however, the main interest in her work lies elsewhere: she is perhaps the first, among our contemporary academic scholars, to put the Marxist point of view squarely in her academic work and, in particular, to raise some fundamental theoretical question concerning Marxist approach to agriculture, albeit polemically.

Sulekh Gupta's analysis was on the whole in the right direction as far as his theoretical orientation was concerned. But he seems to have, in the first place, overestimated the development of capitalism in India. "Capitalist mode of production in India", he asserted, "has established its supremacy with the installation of the Indian bourgeoisie into State power. In a capitalist economy the feudal burden on agriculture proved to be an anachronism and had to be liquidated" [42]. This assertion he did not try to verify on the basis of empirical data. This overestimation of the development of capitalism went hand in hand with his underestimation of the strength of the pre-capitalist modes of production still prevalent in our agriculture. Taking the official declarations of the Indian ruling classes by their letter, he asserted that the existing laws had already provided "the mechanism for the transition (of the zamindars) from being a useless and parasitic class to a useful productive class of bourgeois farmers" and that "the whole strategy of the Congress governments in their programmes of agrarian reform has been to curb the feudal sources of existence of the former feudal classes" [49]. In support of his thesis he took some published data on lease of land and share-cropping which showed, according to him, falling trends. He did not deny that concealed forms of semi-feudal exploitation were still persisting but seems to have underestimated their strength in the whole sphere of agrarian relations. We leave aside here the very important question — to which we hope to return later — as to whether the development of capitalist mode of production in Indian agriculture has been an *independent* development, as Gupta seemed to suppose, or, whether like the rest of the development of capitalism in India it is, on the whole, dependent on imperialism. Ultimately, it seems to us, Gupta's analysis turns out to be more in the spirit of Plekhanov [50] than in the spirit of Lenin.

Ashok Rudra's work is full of interesting empirical data and offers us very rich material for research on the question of the mode of production in our agriculture. But, unfortunately, his theoretical part is far from satisfactory, though we must add that theoretical analysis was not the main purpose of his work. Most of his theoretical shortcomings have been fairly ably pointed out by Utsa Patnaik (though, perhaps, not in the most desirable manner). One or two points, however, need to be clarified.

First, Rudra seems to have taken the 'rate of capital formation' as an index to 'the growth of capitalism', if not as its equivalent [51]. This is particularly strange in view of his negative finding about capitalist farming. Here, evidently, he took capital merely as an instrument of production and not as a *relation* — a distinction that separates the bourgeois notion from the Marxist notion of capital. It is in this profound sense that Marx observed that the thought of capital without capitalist is completely false and that "capital is necessarily also a capitalist", adding that it is "a relation and can only be a relation of production *[ein Verhältnis und Kann nur ein Produktiousverhaltnis sein]*" [52]. This theoretical mistake is reflected in Rudra's choice of a variable among others to identify the 'capitalist farmer' — *viz*, the use of 'modern capital equipment' [53]. The existence of a sophisticated instrument of production is not necessary for identifying a capitalist. Given the capitalist mode of production, for which capital as a relation is only required, the existence of 'modern equipment' would only indicate a higher level of capitalism.

Secondly, the land-relation under capitalist farming need not be only owner-cultivation, as Rudra seems to have suggested [54]. Tenant cultivation is permissible under capitalist farming, on condition that, though the capitalist is a tenant, he uses wage-labour for cultivation and pays a part of the surplus-value as rent to the landlord. This is the classic case of capitalist ground rent discussed by Marx.

Utsa Patnaik's work, as we pointed out above, is largely polemical and aimed mostly against some earlier work of Ashok Rudra. Though many of the points she made against Rudra — her manner of presentation apart — seem to us to be correct we have reservations about some of her theoretical formulations. We shall discuss them one by one.

(1) Her distinction between non-capitalist' and 'pre-capitalist' is not at all clear. We believe she used the terms in the sense of mode of production. Pre-capitalist mode of production then simply signifies a mode of production preceding the capitalist mode of production. There may be areas of a country which are still in this sense pre-capitalist but it does not mean that capitalism from outside, capitalism as a world system, can have there "no impact at all". Such was precisely the case with the pre-civil war American plantations which certainly did not come under the category of capitalist mode of production but where, as Marx observed, "a capitalist outlook transferred from capitalist countries" prevailed [55]. Non-capitalist simply is a set containing pre-capitalist and post-capitalist modes of production. Secondly, if on her own admission capitalism had developed even with all "limitations and distortions", how could she still say that it was 'non-capitalist'? Did she not in that case, wishing for the unreal, opt for pure capitalism' — a subjective propensity for which she had taken Ashok Rudra to task? Thirdly, one shortcoming of her 'non-capitalist' capitalism was that it did not 'revolutionise the mode of production'. Capitalism, when it was still a progressive force, only destroyed the pre-capitalist modes of production but did not 'revolutionise' them. In its reactionary phase, however, roughly beginning with the imperialist epoch, it could not destroy the pre-capitalist modes which continued to co-exist with the capitalist mode. This was particularly true of backward countries like Russia. So it was not the fault of capitalism — whatever its degree of development — in ex-colonial countries like India alone.

(2) One reason why the "Indian agrarian economy remained non-capitalist" in "colonial period just prior to independence" [43] was, according to the author, that along with the pauperisation and proletarianisation of her peasantry India did not experience that "parallel rise of modern Industry at a phase fast enough to absorb the proletariat so created"[44]. Here is a statement which, we are afraid, goes against what Marx called the absolute general law of capitalist accumulation' — *viz*, the greater is the growth of social wealth under capitalism, the bigger is the relative mass of industrial reserve army. "A more rapid increase in the means of production and the productiveness of labour, than the productive population, expresses itself capitalistically in the inverse form that the labouring population always increases more rapidly [*dass die Arbeiterbevolkerung stets fäscher wachst*] than the conditions under which capital can employ this increase for its own self-expansion" [45], wrote Marx, though he added, "like all other laws it is modified in its working by many circumstances" [46]. Marx indeed showed, from the history of England, how in fact the industrial reserve army, not being absorbed by a parallel rise of industry, was increasing over years [47].

(3) Ernest Mendel's alleged distinction which the author cited, between "bourgeois property relations" and "capitalist relations of production" is absolutely invalid in any context — colonial or non-colonial. Elementary Marxism teaches us that the term 'property relations' is simply the juridical expression of the term 'production relations'; both are equivalent terms. After asserting that in the colonies it is to the interest of the landowner to let out his land in small plots rather than to exploit it as a large-scale capitalist enterprise, Mendel says "the bourgeois property relations prove an obstacle to the introduction of the capitalist mode of production in agriculture" [48]. As if letting out the plots instead of exploiting them oneself, shows bourgeois property relation! What it in fact shows —at most, is the private property in land reflecting only the *commodity character*. There can be no bourgeois property relations without there being bourgeois production relations and *vice versa*. It is, of course, an altogether different matter to say that *"the real barrier [die wahre Schranke]* of capitalist production is capital itself *[das Kapital selbst]"*, as Marx did in a totally different sense [56].

(4) She asserted that the rural wage labourers in India are free insofar as they are not tied to particular pieces of land but they are tied to agriculture and thus are forced to accept subsistence wage from the landlord. The logic is somewhat baffling. When Marx spoke of the existence of free labourers as a condition of capitalism, he meant this freedom in a double sense: freedom of the labourer to sell his labour power as his own commodity and freedom from ownership of any other commodity for sale. If the rural labourers in India did not possess any other commodity but their labour power and if they were not tied to *particular employers*, in that case they, we submit, fulfill Marx's condition. They might be tied to agriculture in the same way as the industrial wage-labourers are "tied" to industry, but that is immaterial insofar as the rise of capitalism in the countryside is concerned. The situation would of course be altogeter different if the rural labourers were tied to agriculture by non-economic forms of exploitation.

(5) She offered what seems to us a new notion of capitalism, according to which not only the existence of commodity production but also that of 'wage-labour' are only necessary conditions of capitalism. She is perfectly free to offer her idea but this is not in the spirit of Marxism, which is fully reflected in Lenin's oft-quoted definition of capitalism as "the highest stage of commodity production where labour-power itself becomes a commodity". Accumulation and re-investment of surplus-value fall within this definition and need not be stated separately as far as the definition of capitalism is concerned. They very process of commodity production with the sale of labour power as its ultimate form generates the process of surplus value and its re-investment, though at a relatively *low* stage of capitalist development this may be very slow and may not be quite clear to the superficial observer. The alternative logic might lead one to think of capital as a *thing* and not as a *relation*. Perhaps this is why she, while rejecting most of the theoretical positions of Rudra, accepted his five criteria — including the one on 'modern' capital equipment — albeit for defining a 'pure' capitalist. We already pointed out earlier the danger of such an approach. We can only add that sophisticated technical equipment indicates only the higher *level* of capitalist development, not the capitalist development itself. After asserting that "peasant industry, in spite of its comparatively tiny establishments and low productivity of labour, its primitive technique and small number of wage-workers, is capitalism" Lenin observed that the Narodniks "cannot grasp the point that capital is a certain relation between people, a relation which remains the same whether the categories under comparison are at a *higher or lower level of development*". [57] The fact is that, capital and wage labour always go together; they are inseparable. As Marx showed, "wage-labour and capital are two forms constituting, at different moments, *one form* and *stand and fall together [miteinander stehen und fallen]*" [58].

References

[1] We owe a great deal to the works of Luis Althusser.

[2] Robinson and Kidron (editors), "Economic Development in South Asia", 1970, p 31.

[3] *Ibid*, p 99.

[4] 'Class Structure in an Agrarian Society' in "Society and Revolution: Essays in Honour of Engels", People's Publishing House, Bombay, 1970, pp 208-9.

[5] See Althusser, *'Du Capital a la philosophie de Marx'* in Althusser and Balibar: *"Lire le Capital"* 1968, Volume I, pp 46 ff.

[6] Afterword to the second German edition of "Capital I".

[7] *"Einleitung"* (1857) *"Zur Kritik der Politischen Okonomie"* (1859), Dietz, S 257. (Our emphasis.)

[8] *"Das Kapital*, III", (Dietz), S 254.

[9] Preface to the first German edition of "Capital I".
[10] *"Das Kapital* III", S 839. (Our emphasis.)
[11] 'Once More on the Theory of Realisation', 1899, in "Collected Works IV", pp 75, 87.
[12] Class Struggles in France, 1850. *passim.*
[13] "The Eighteenth Brumaire of Louis Bonaparte", 1852, Section I.
[14] *"Das Kapital* III", S 892-3.
[15] *Ibid,* S 800.
[16] *Op cit,* p 215. Our emphasis. Incidentally, he mentions revolution and counter-revolution in Germany as one of the works where Marx was 'constrained' to use a multi-class analysis. He cites R Aron as his source of information. Beteille does not even know that the book in question was the work of Engels even though it appeared under Marx's name (See Marx-Engles: *"Werke.* VIII" (Dietz), Anmerkungen, S 607). This ignorance is strange in a paper that appeared in a commemoration volume on Engels. It is also an eloquent commentary on the state of Marxism in India that such a paper, hostile to Marxism, where the allegedly Marxist propositions where derived from secondary sources and rarely with reference to the classical texts of Marxism, could be published in a volume on Engels by a leading publishing house 'loyal' to Marxism.
[17] See Althusser: (a) *"Pour Marx"* (1965), pp 85 ff, pp 161 ff,
(b) *"Lire le Capital II"*, section 4.
[18] Letter to Bloch, September 21, 1890.
[19] *"Misere de la Philosophie"*, 1847, II, troiseme observation.
[20] *"Einecitung"*, 1857, S 237.
[21] *Ibid,* S 257.
[22] *Ibid,* S 264, (Our emphasis.)
[23] *"Das Kapital I"*, (Dietz), S 743-44. Almost the entire section on the "so-called primitive accumulation" in the same volume traces this pre-capitalist history. Various aspects of the pre-capitalist social formations are, again, analysed in some details in the third volume of "Capital" and in the manuscript published recently under the title of *"Grundrisse der Kritik der Politischen Okonomie"*, 1953, Dietz.
[24] 'An Aspect of Indian Agriculture' *The Economic Weekly,* February 1962.
[25] 'Peasants and Dualism with or without Surplus Labour', *Journal of Political Economy IPE,* October 1966.
[26] 'Economic Theory and Agrarian Economics', *Oxford Economic Papers* (*OEP*), February 1960.
[27] 'Economic Theory and Agrarian Reform', *OEP,* February 1962.
[28] As Sen pointed out, Georgescu Roegen's model was a special case of the more general model of his own. While Roegen supposed real labour cost in the family labour-based sector to be zero, Sen quite correctly pointed out that it was not necessary. What was required was the positive difference between wage and the real cost of labour. See his paper in *JPE,* 1966.
[29] Rao — 'Agricultural Growth and Stagnation in India' — *The Economic Weekly,* February 27, 1965, reprinted in A M Khurso (ed) — *Readings in Agricultural Development* (1968).
[30] 'Uncertainty, Entrepreneurship, and share-cropping in India' in *Journal of Political Economy,* May-June, 1971.
[31] Marx: *"The Eighteenth Brumaire of Louis Bonaparte"*, section VII.
[32] Marx: *"Das Kapital* III", (Dietz) — 47, V.
[33] Inasmuch as Sen's *JPE* (1966) paper made a clear distinction between static and dynamic 'efficiency' it was a definite improvement over his earlier position as stated in his *The Economic Weekly* (1962) paper.
[34] *"La Question Agraire"*, (1900), p 251. The book first appeared in German in 1898. Kautsky made some revisions in the French version.
[35] See his *JPE* (1966) paper.
[36] *"Das Kapital* III", S 814.
[37] See Kautsky: *"La Question Agraire"*, pp 12 ff.
[38] Lenin: *"Capitalism in Agriculture"* (1899), First Article, section III, italics in the text. The situation in which this takes place is one in which, according to Lenin, "simple commodity production is eliminated by *Capitalist Production"* (italics in the text). But this capitalist production does not mean here capitalist mode of production, with hired wage-labour, in agriculture itself, as is evident from the quotation in our text above. That our interpretation is correct is also clear from Marx's "comparing countries with a developed capitalist production with countries in which labour has not yet been formally *[formlich]* subjected to capital, although in reality [in *Wirklichkeit]* the labourer is exploited by the capitalist *[von Kapitalisten ausgebeutet wird]"* — *"Das Kapital* III", S 225, our emphasis. In this connection Marx specifically cited India as an example where the "ryot manages his farm as an independent producer whose production as such is not therefore as yet subjected to capital, although the userer may not only rob him of his entire surplus-labour by means of interest, but may also pinch off *[abzwacken mag]* part of his wage", *ibid.*
[39] 'New Trends of Growth' *Seminar,* October, 1962.
[40] In three papers: (a) 'Big Farmers of Punjab', *Economic and Political Weekly,* September 27, 1969; (b) 'Big Farmers of Punjab' *ditto,* December 27, 1969; (c) 'In Search of the Capitalist Farmer', *ditto.* June 27, 1970.
[41] 'Capitalist Development in Agriculture', *Economic and Political Weekly,* September 25, 1971.
[42] "India's Agrarian Structure" (1966) p 27, (our emphasis).
[43] *Ibid,* p 30, (our emphasis).
[44] We refer mainly to Plekhanov's 'Our Differences' (1884) in his "Collected Philosophical Works" Moscow, Volume I.
[45] *Economic and Political Weekly* September 27, 1969. p A-145.
[46] *"Grundrisse der Kritik der Politischen Okonomie"* (Dietz, 1953); S 412-13, emphasis in the text.
[47] *Economic and Political Weekly,* June 27, 1970. p A-85.
[48] *Ibid.*
[49] *"Das Kapital* III", S 812.
[50] This division of pre-colonial and post-colonial for India is much too *simpliste.* From India's relations with imperialism prevailing now, we call India a semi-colony.
[51] Our emphasis.
[52] *"Das Kapital* I", (Dietz), S 674.
[53] *Ditto.*
[54] *Ditto,* section 3.
[55] "Marxist Economic Theory" (English Translation), 1968, Volume I, chapter IX.
[56] *"Das Kapital* III," S 260, emphasis in the text.
[57] 'What the "Friends of the People" are' in "Collected Works I", p 217,) emphasis in the first part is Lenin's *in the second, ours.*
[58] "Grundrisse", S 486, (emphasis ours).

Peasant Farms and Socialist Transformation of Agriculture in Poland, 1945-1975

S Ganguli

Although socialist transformation of the economy requires eventual social ownership of all means of production, both in industry and agriculture, there has to be a policy for the transition. The problem of transition consists of the contradiction between the peasants' attachment to their land and the State's need to put land under State ownership. Thus, while the State cannot at its will socialise agriculture, continuous development of a socialist economy is not possible without it. The physical problem of the transition concerns the accumulation of funds for investment. In any country with a large agricultural sector and a small industrial sector the investible surplus has to come initially mainly from agriculture.

Faced with this problem of transition, the Polish agricultural policy has aimed to get accelerated growth of farm output together with socal transformation in the countryside with a socialist orientation. Against the background of Poland's historical experience and the nature of its agricultural sector this does not yet imply socialisation of all agriculture. In fact, Poland's agricultural sector is unique among socialist countries in that individual peasant farms account for 85 per cent of agricultural land, and small individual farms of 5-10 hectares constitute the largest group among individual farms.

While the approach to agriculture in socialist countries has been of two types, viz, *(i) to make use of the exchange relations with agriculture by the State, i e, through commercialisation through material incentives such as prices and (ii) to socialise agriculture by co-operative, collective or State farms. Both approaches have been tried in these countries at one time or another, or simultaneously.*

This paper reviews the evolution of the Polish agricultural system in this framework in terms of the following phases: 1945-48—the period of land reform; 1949-53 — the period of collectivisation that did not succeed; 1956-70—the new more flexible agricultural policy aimed at maximising growth while taking the country over time towards socialist transformation; and 1971-75—an adjustment and extension of the new agricultural policy.

Poland has not yet found a New Model for the process of socialisation of agriculture through all its stages, but seems to have by now formulated a framework that might eventually reconcile the two opposing pulls of the transitional period.

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THE agricultural sector in Poland is unique among those in socialist countries. Individual peasant farms cultivate 85 per cent of the agricultural land, while production co-operatives cultivate 1.1 per cent and State farms 13.6 per cent. Thus, the socialist sector covers only about 15 per cent of cultivated land. There are about 3.5 million individual farms. Among these, small individual farms of 5-10 hectares constitute the largest group, whereas a socialist economy requires large-scale farming both from the technical and the social points of view.[1] The guiding principle of the Party's present agricultural policy is accelerated growth of farm output together with social transformation in the countryside with a socialist orientation.[2] The Party strives to consolidate the worker-peasant alliance, which is the cornerstone of the people's power. The policy does not as yet imply socialisation of all agriculture. And this has given rise to certain interesting questions regarding the path of transition towards eventual social ownership of all means of production — the ultimate basis of a socialist society.

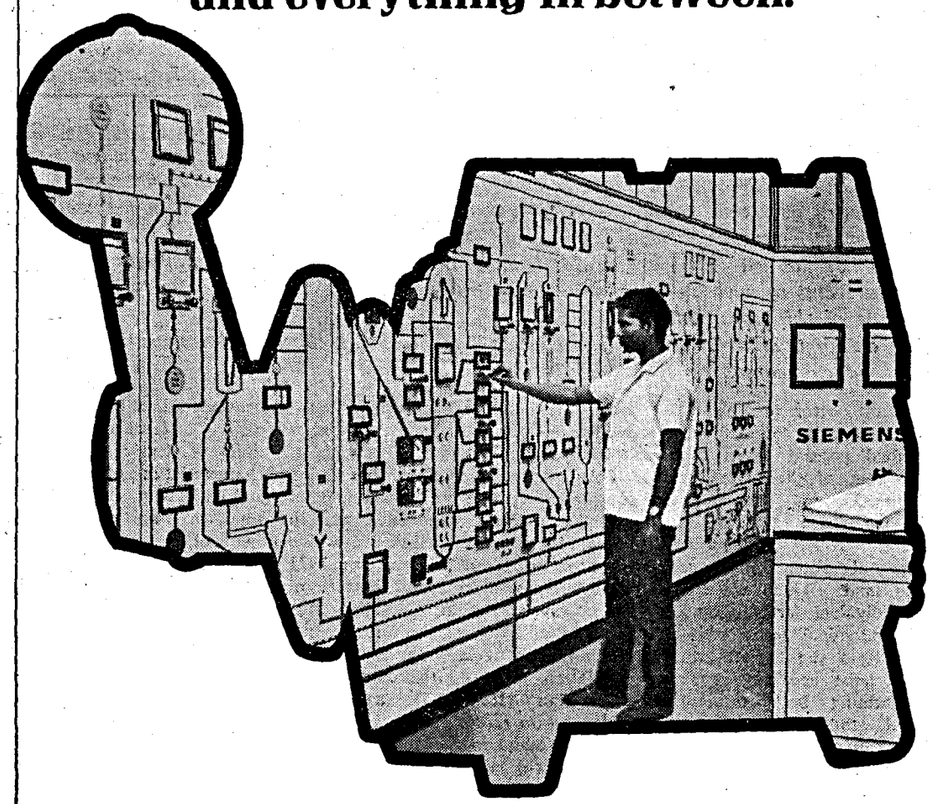
Polish agricultural policy has to be considered against the background of Poland's historical experience, and in terms of the specific obstacles which the economy faced in December 1971 when there was an acute shortage of meat supply impinging upon the standard of living of the entire population but particularly the agricultural population. Thus, in the current five-year plan (1971-1975), agricultural policy has to tackle two problems: (i) solution to the immediate meat shortage; and (ii) generation of forces for the eventual transformation of agriculture into social ownership operating on a superior technical base.[3]

There are some fundamental problems which every socialist country has to face and tackle; but there are also others which are specific to individual socialist countries. The common problems are those which arise out of the need for rapid socialist industrialisation. The socialist experiment had to be undertaken in the countries which were underdeveloped — though in different degrees. They had all the characteristics of underdevelopment: surplus labour and primitive techniques in rural areas; a large number of small farms and landless labour; feudal relations in agriculture; and a weak and unbalanced industrial structure also operating at low levels of techniques. It is against this background that the State came into existence on the basis of workers and peasants alliance, to implement the programme of socialist transformation of the economy. The first act of the State was to take over industry and to abolish feudal relations in agriculture. The latter resulted in distribution of land to the peasants and particularly to the landless. This asymmetry in the policies towards the industrial and the agricultural sectors, though related to objective conditions, introduced new problems. In the industrial sector, workers had some experience of working together in a group on the means of production

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which were privately owned prior to their socialisation. But the peasants had no such experience of working collectively; they worked individually on small plots of land which were not fully owned by them; thus, their inclination was not towards social ownership of the means of production but rather towards individual ownership of land. Hence there emerged a dichotomy between the industrial sector and the agricultural sector, both in terms of relations of production and forces of production : socialised industry against private agriculture — higher level of technique in industry against lower level in agriculture resulting in lower relative productivity of labour in agriculture than in industry.

Although socialist transformation of the economy requires eventual social ownership of all means of production, both in industry and agriculture, there has to be a policy for the transition.[4] The problem of transition has two contradictory components; the peasants' attachment to their land, and the State's need to put it under State ownership. The State's capability for action is limited, however, by its source of power — *viz*, the workers-peasants alliance — on the one hand, and by its inability to supply an adequate quantity of the means of production to agriculture and to provide industrial employment for the surplus rural population on the other hand. In other words, while the State cannot at its will socialise agriculture, continuous development of a socialist economy is not possible without it. Industrial development is not possible without the development of agriculture, even as agriculture cannot develop without industrial growth.

The process of transformation to eventual socialist agriculture may be seen as consisting of certain stages. The specific character of these stages depends on the historical characteristics of the particular country, and on the specific obstacles that emerge in the economy out of their own efforts towards socialist transformation. As there are both long-term and short-term problems, it might become necessary at a specific time to take measures which are in partial conflict with the policy of socialism in agriculture, but which are necessary to strengthen the movement of the economy as a whole towards the long-run goal. (For example, Lenin's New Economic Policy.)

There are two aspects of the problem of transition — social and physical. Let us take the physical aspect first. The core of the problem here is how to accumulate funds — both in terms of volume and composition — for investment. In any country with a large agricultural sector and a small industrial sector, the investible surplus to build industrial capacities has initially to come mainly from agriculture. There are two factors constraining growth: inadequate marketed surplus (which consists of agricultural product, food and raw materials) and inadequate industrial capacities to produce producers goods.[5] The essential question is : how to transform grain into steel, and how to increase and obtain a surplus from agriculture and transfer it to the State for creation of new industrial capacities. Solution to this problem requires certain inter-sectoral flows between agriculture and industry — agriculture supplying food, raw materials, and manpower, and industry, in turn, supplying industrial products comprising both consumption and investment goods. It is clear that the best way towards this goal is through the establishment of State farms and State industries. However it is not possible to do this at one stroke, owing to social and physical constraints.

The object of the inter-sectoral flows is to bring about a balance between the savings and investment processes. The success of the extended reproduction process will depend on the rate of growth of the aggregate national product. It is clear that the source of increased savings is increased productivity of labour without a matching increase in the level of consumption.

However, the objective of increasing the productivity of labour for the economy as a whole over time does not necessarily imply that the productivity per labourer in agriculture has to be maximised at all stages. In agriculture, where labour in general is not yet a scarce factor, the objective has to be to maximise productivity per hectare of land and not per person engaged. This will maximise the total output of the family farm, which will be consistent with the objective of maximising the aggregate national output. The rate of growth of the national product is not limited here by the shortage of labour but by the structure of industrial capacities. The bottleneck may be the raw material base. In this situation a fast rise in the productivity of labour in agriculture will cause an outflow of labour to industry without causing any increase in the output of either of the two sectors. Fast rate of growth in the productivity of labour in agriculture through mechanisation under these conditions does not increase the rate of growth of the national product but only causes a reduction in the working hours of non-agricultural workers. There emerges a tendency to equalise the costs of production of food and of industrial products; employment in agriculture declines and employment in industry increases, but the output in both sectors remains unchanged. However, it is also to be noted that this increased productivity per labourer will be partly compensated by the increased cost of production due to increased investment expenditure in agriculture.

This will reduce the differential between the cost of production of agricultural and industrial products. As a result, the total cost of producing the aggregate national product will rise, savings will fall, and the growth rate will fall.[6] However, as the modern industrial capacities increase, the formation of large-scale mechanised farms for the agricultural sector as a whole becomes imperative.

The two basic forms of property — private agriculture and socialised industry — introduce problems in the social relations between the two sectors. Further, workers in the industrial sector have to be paid in terms of their work and a modified system of wages emerges. In the socialist economy also emerge exchange relations and commodity production, and the law of value tends to operate by generating forces towards exchange products between the sectors on the basis of equivalence. On the other hand, the State has to procure food from the agricultural sector to feed the workers in the industrial sector but it cannot pay the agricultural sector in terms of an equivalent quantum of industrial products. In the context of increasing investment by the State any attempt on its part to procure agricultural surplus on the basis of market prices would push up prices of agricultural products and would thus hold the industrial sector at ransom. The State would not only fail to finance its investment programme but would also hand over the surplus produced in the industrial sector to private agriculture. This would lead to increased stratification within the rural sector and stimulate growth of rich peasants and capitalism in agriculture. Such is the classic

problem of socialist accumulation which Preobrazhensky gave the anxiety-provoking name, "primitive socialist accumulation".[7]

All the socialist countries faced these common problems of socialist industrialisation, but could not evolve any general theory for agricultural policy during the period of transition. At the one extreme are the Chinese communes and at the other the Polish peasant farms. However, all the socialist countries have passed through certain common phases until they evolved their respective variants for the implementation of Lenin's theory of 'co-operation' in agriculture.[8] The foundations of policy in agriculture rest on the identification of the character of the rural stratification and the role of the peasantry in the revolutionary struggle. All the socialist countries had the same approach to the landlord and to the poor peasants and the landless — abolition of feudalism, and land reforms leading to the re-distribution of land. So far as the rich peasants and the capitalist farmers are concerned, the policy generally was first to contain them, and then to eliminate them. But it is in regard to the poor peasants owning largely subsistence family farms that the main differences in policy arose.

The approach to agriculture has been of two types :

(1) to make use of the exchange relations with agriculture by the State, i e, by commercialisation, through material incentives. For this, price is the main instrument,

(2) to socialise agriculture by forming co-operative, collective, and State farms.

Both approaches have been followed in the socialist economies, at one time or another, or simultaneously. The starting point of both these approaches is the recognition of the peculiarities of the peasant family farm as the subsistence, non-commercialised farm. It is well known that the optimum output for the family farm is attained by using labour upto the point where the marginal product of labour is zero, i e, where the total output per hectare of land is maximum. The policy, therefore, is to reproduce the replica of the family farm on a larger scale to be able to reap the advantages of this kind of non-wage economy — in order that the output on land is maximum. This is the rationale behind the formation of the co-operatives or the Chinese-type communes. The former approach attempts to bring the family farms within the nexus of exchange relations, and to increase output and marketable surplus through material incentives. Both these approaches pose certain difficulties. As has been noted earlier, free market prices cannot be relied upon for obtaining a surplus from agriculture. They have to be substituted by administered prices. An increase in the peasant's income does not necessarily lead to either increased investment in his own farm or to increased marketed supplies. It may simply lead to an increased consumption by him of his own produce. Therefore, some administrative method has to supplement the price mechanism. A method combining material incentives and State control has to be invented, alongside a simultaneous development of the socialist sector in agriculture.

Thus, the Chinese, too, had to recognise the technical and social constraints in developing socialist agriculture; they had to recognise the role of material incentives. The communes have now ceased to be units of agricultural production. Production is now organised on the basis of production brigades![9] On the other hand, Polish private peasant farming is being increasingly linked with the socialist sector.[10]

The evolution of the Polish agricultural system can be conveniently reviewed in terms of the following phases: 1945-1948—the period of land reform; 1949-1953—the period of collectivisation drive; 1956-1970—the new agricultural policy; 1971-1975—an adjustment and extension of the new agricultural policy.

In pre-War Poland, about half the agricultural land was owned by landlords who constituted about one per cent of the rural population. Under the Land Reforms Act, 1944, the landlords' land was appropriated without compensation and was distributed among the farm workers, landless labourers, and small peasants, at a modest price to be paid in instalments over 10-20 years, beginning after three years in the case of landless peasants. The payments made by the owners of medium-size farms for the land they received under the land reform were transferred to a State Land Fund which was used to assist the landless peasants to set up their own farms. The upper limit of land holding was set at 50-100 hectares of arable land, the exact limit depending on the region. As a result of the land reform and the resettlement of Recovered Territories, some 6 million hectares of land was redistributed. More than a million peasants, or every third peasant family, benefited from the land reform. Thus 814,000 families were able to create new farms. As a result, 347,000 new farms, averaging 5.4 hectares each, were created on the pre-War Polish soil, while 466,900 new farms of an average of 7.9 hectares were set up in the Recovered Territories. Approximately, 254,000 families, mainly small peasants, received additional land and were able to increase their holdings by an average of 1.9 hectares. Part of the land expropriated under the land reform was allotted to State farms.

Although the land reform was socially beneficial since it helped the peasants, it created technical problems from the production point of view. It created the problem of fragmentation of land into small plots, thus making technical progress difficult. Even the large farms did not display a high level of technique as cheap labour was available.

The year 1948 saw the beginning of collectivisation. Till then, the Polish economic policy had been based on what Gomulka called the three-sector system—consisting of the State sector, the co-operative sector, and the private sector—as a permanent feature of the Polish People's Democracy.[11] The main reason for the new drive for collectivisation was the need to arrest the process of fragmentation, and to induce the peasants to change to a more efficient form of production. However, there was some doctrinal element too in the collectivisation drive. It was observed that the capitalist and the small commodity sectors still accounted for over 75 per cent of total employment and that the role of the socialised sector in agriculture was rather insignificant. Thus the only way out for the People's Democracy, it was thought, was not only expulsion of capitalist elements but also transformation of small commodity production into socialist production.

In order to make collectivisation a success the following requirements would have to be fulfilled: industry must supply enough machines, tractors, fertilisers, and other inputs; the State must provide sufficient financial aid; and the motivational transformation must be achieved in the minds of individual peasants. Although Minc, the main spokesman of the Party at that time,[12] recognised that the fulfilment of the above requirements would take a long time, collectivisation was forced in a hurry—violating the voluntary principle. The target for agriculture in the six-year plan was set at a very high figure: an increase of 33-45 per cent, or roughly 5-6 per cent annually. There were originally three types of 'producers' co-operatives' (or collective farms), distinguished mainly by the method of distribution of product and income. The lowest form —type 1—was the one in which members were to participate in some collective cultivation of their land-holdings; livestock and equipment were to remain in private hands and the product was to be divided according to the individual contribution of land, labour and capital. In type 2, members were to conduct all productive activities collectively; both land and capital were to become common property; some private plot for hogs and poultry-keeping was permitted; the product was to be divided in proportion to the land, capital and labour contributed by each member with the largest share going to labour. In type 3, income was allocated among its members according to labour only. All co-operatives were to be based on the principle of voluntary accession.

The collectivisation drive did not achieve its objective. It brought disproportions between the needs of the urban population and agricultural supplies. Disproportions appeared also within the structure of agricultural production. The years 1951-1953 brought about a lowering in the standard of living of the working population. Among the causes for the failure of the collectivisation drive was the violation of the voluntary principle. Small peasants were to be the backbone of the co-operatives. But the great majority of the members belonged to the middle or even the kulak class, and only a small number of poor peasants joined the co-operatives. The members concentrated their efforts on developing their own household plots and on tending their livestock. The magnitude of the compulsory deliveries of agricultural produce to the State also imposed an undue burden on the peasantry. Further, the State could not make adequate provision for the supply of means of production to the farmers. The facts are revealing:

If we calculate the value of total production per hectare of agricultural land, we obtain the following picture. Individual farms produce 621.1 zlotys, collective farms 617.3 zlotys, and State farms 393.7 zlotys, at constant prices. The difference between individual and collective farms is, therefore, 16.7 per cent while individual farms' produce is 37.2 per cent more than State farms.[13]

All this led to the introduction of the new agricultural policy in 1956.[14] The foundation of the new agricultural policy was on Gomulka's three-sector system mentioned earlier. The new policy, which brought immediate results with agricultural output increasing significantly in 1957, began to lose its force by the second half of the sixties; and in 1971, when an acute meat crisis arose, the standard of living of the working people fell. Consequently, in 1971, certain changes were made in the agricultural policy within the framework of the three-sector strategy.[15]

The main features of the new agricultural policy of 1956 were the following: (i) dissolution of the inefficient co-operatives, (ii) recognition of the need for peasant farming, (iii) improvement in the performance of the State farms and the remaining co-operatives.

In 1956, there were above 10,000 production co-operatives in Poland, mostly of the lower type. In 1956 and 1957, most of them broke up. In 1957, only those co-operatives remained which were under conditions of voluntary membership. There were 1,225 production co-operatives in 1966. Their average size was 177 hectares of land and their average membership was 18 families. The number of State farms also declined somewhat: in 1955 there were 6,630 State farms and in 1968 there were 5,792 State farms.

Instead of directly socialising the peasant farms, the strategy has been to link them with the socialised sector. The links are of two types: vertical and horizontal. The vertical link is with the State and the horizontal link is between the peasant farms and the socialised organisations in the agricultural sector. The link with the State is a two-way link: agriculture provides the State with the surplus product through commodity exchange and land tax, while the State supplies agriculture with industrial goods. Land tax has not so far made a significant contribution. The main form has been the compulsory delivery of agricultural products to the State, at a compulsory delivery price which is lower than the market price or the contract price. During 1951-1956, agriculture made a considerable contribution to financing industrialisation through compulsory delivery of basic agricultural products at a compulsory delivery price—which is half of the contract or market price. In 1956, there was a significant change: the surplus thus obtained is to be invested in agriculture itself. The economic link with the State through compulsory delivery remained, though its coverage was narrowed to three items only: grain, meat, and potatoes. Further, the purchase price was increased. The most important innovation was 'a socialist outlays system'. This consists of a set of economic instruments:

(a) extension of the forward contract system, at a specified price for specified quantities of products for a specified time,
(b) State Agricultural Development Fund, to provide fixed investment, which was established in 1959.
(c) State credit for both fixed and circulating capital.

The main tool was the Agricultural Development Fund (1959). It was created on the basis of the difference between the compulsory delivery prices of agricultural products and the free market prices or contract prices. The total value of the differences, which was previously included in the general social accumulation, was now returned to the peasants—not on an individual basis but as their collective property. The magnitude of this differential in 1968 was as follows: per 1 quintal of grain 120 zlotys; per 1 quintal of potatoes 30 zlotys; per 1 kg of slaughter animals 8.3 zlotys. This sum was handed over to the agricultural Development Fund, and the fund was handled by the Agricultural Circle of the village. It was used for the purchase of means of production, primarily tractors and machinery. The scope of the forward system was extended. This also was a system of socialist outlays: the supply of means of production at a low price was tied with the contract for the supply of agricultural products and this formed the basis of credit for the farmer. The horizontal link was provided through Agricultural Circles. This is a traditional organisation, first formed in Poland at the turn of the 19th century. It was now revied. The Agricultural Circle is a voluntary general socio-economic organisation of peasants, for associating them in activities aimed at increasing and improving agricultural production through co-ordination of individual efforts with mutual assistance and co-operation. At the end of 1967, there were 34,000 agricultural circles with 2,100,000 members—including women's circles. Their activities covered 84.2 per cent of the villages.

The extent of social forms of activity, i e, the elements of socialism in agriculture and their increasing linkage with the socialist State may be seen from the following. In 1962-63, about 10-12 per cent of grain produced in Poland was purchased by the government on the basis of compulsory deliveries. Roughly the same proportion was purchased in the free market. Approximately 17 per cent of animals bred for slaughter in the country were purchased through compulsory deliveries, and 51 per cent were bought in the market or on the contract basis. The contract system was developed mainly for industrial crops. The entire crops of sugar beet, barley, tobacco and hogs were collected by the State on the basis of the contract system. On the whole, about 60 products including animal products fell within its scope. In 1963, the system was expanded to include wheat. In the following years, cereal contracting increased, and so did the prices. In 1967, about 14.3 per cent of the whole area under cereal crops, and 25 per cent of the whole area under wheat, were under contract. This corresponded to some 30 per cent of the marketed cereals and 57 per cent of the wheat. The State also contracted for 89 per cent of oleaginous plants, around 47 per cent of potatoes, 77 per cent of pigs used for fat bacon, 86 per cent of those for lean bacon, and 58 per cent of the cattle. About 48 per cent of the entire agricultural production was purchased by the socialised commercial contracting system.

The main factor giving direction to agricultural production is the prices paid to the contracting peasants. However, other incentives are also applied, such as supply of the means of production, seeds, fertilisers, fodder, building materials, as well as credits and professional advice.

The decisive role of the State in financing investment in agriculture through the credit system and the agricultural development fund can be summed up in the following points:

(i) The role of credit in financing investment gives the following significant figures: in 1969, the productive investment in peasant farms was 8,582 million zlotys, whereas the credit obtained was 7,234 million zlotys. The credit repaid was 3,069 million zlotys, and so the net credit obtained was 4,165 million zlotys. This was about half of the total productive investment in the peasant farms.[16]

(ii) In 1969, the agricultural development fund—the source of which is a form of compulsory saving as explained earlier—provided 4,324 million zlotys which formed over 50 per cent of the total investment in the peasant farms in that year.[17]

The significance of the above forms of financing can be seen from the increase in the fertiliser input and the mechanisation of agriculture. In 1950, the fertiliser input per hectare was 7.7 kg; in 1960 it was 36.5 kg; in 1968 it was 92.5 kg; in 1959, out of 6,000 agricultural circles only 700 owned tractors. In 1963, agricultural circles owned 28,367 tractors, whereas in 1967 they owned 66,200 tractors.

The tractors owned by the agricultural circles can play an important part in raising the output of peasant farms, in forming embryos of socialist accumulation in peasant farming and in spreading the idea of collective farming.

By the latter part of the 1960s the agricultural policy needed changes, but these were delayed until the meat crisis in December 1970. There emerged an acute shortage of meat supply, particularly of pork. The solution was sought in price increase, to cut down demand, which led to adverse social consequences. The meat crisis was due not only to two bad harvests of the preceding years but also to the economic policy: the 'new' economic policy had by then become old.[18] There was certain stagnation in the livestock production. The universal increase in purchase prices of cereals and in the retail prices of concentrate fodders, introduced together with contract purchases in 1965, resulted in a deterioration of profitability of pig breeding. The impact exerted by the said changes in the relation of prices upon the husbandry of small-size farms and that of the larger ones was different, as for the latter, increase in the prices of concentrates was compensated by the said rise of the purchase price of cereals. Thus, on large farms, there followed only a relative decrease of profitability of live pig production whereas in the smaller an absolute one. The number of hogs declined in 1970 by some 260 thousand heads or about 2 per cent. In the past years, the socialist transformation of agriculture was considered to mean the development of State farms, and resources and efforts were concentrated on State farms. Individual peasant farms were badly neglected. The government's measures were directed towards three main aims: improvement in the economic condition for hog production, stabilisation of production, and more efficient purchase and processing arrangements—i e, the development of food processing industry. The 1971-75 plan proposes a growth of 17-20 per cent in crop production and 19-21 per cent in animal production. Meat consumption is to go up, from 52.6 kg per head in 1972 to above 56 kg per head.

To understand the significance of the targets we need to take into account the extent of demand for food and its structure. About 50 per cent of the family budget is spent on food, two-thirds of which is spent on meat products, of which 70 per cent is pork. The income elasticity of demand during the period, 1955-1967, is recorded as 0.77 for food products as a whole, while for meat, 0.96. This is extremely high.[19]

To understand the problem of matching such a demand structure, we have to consider the structure of production of food products. In the preceding years, there was an additional problem due to the stoppage of grain import which created fodder shortage.[20] The fodder for Polish hogs consists of barley and potatoes. It is probably because of this that Polish pork acquires its speciality and its export market.

The physical conditions of production give peasant farms an advantage in hog production over State farms and co-operative farms, whereas State farms and co-operative farms are better suited for plant production and cattle raising. State farms have large areas of pastures, whereas family farms use their own labour in hog raising, which is a labour-intensive activity.[21] Now, the prices paid to the farmers for compulsory deliveries were uneconomic. And this special tax paid by farmers covered those groups of products which happened to be the ones whose profitability was relatively low. The prize paid did not cover the production cost. Therefore, farmers tended to allocate their lowest quality products for compulsory deliveries because every increase in quality involved the farmer in additional losses.[22] Thus, on the one hand, supply of meat declined, and, on the other hand, the demand increased. The demand increased partly because of a rise in the disposable income of the industrial workers owing to increased employment. Although the basic wages did not rise, income rose through premia and bonuses introduced to provide material incentive. This worsened the income differential between workers and managerial groups. But, as has been noted earlier, the structure of demand shows a stability in regard to the income elasticity of demand for food and particularly meat.

Apart from the immediate steps to combat the meat crisis—such as resumption of grain imports, increase in the purchase price of meat from the peasants—long-term steps had to be taken. For the current five-year plan, the following changes of policy in agriculture have been adopted:

(1) Abolition of Compulsory Deliveries from January 1, 1972.[23]

(2) Extension of the Forward Contract system for all commodity purchases[24] by the State and socialised organisations from the peasants. The contract system has already extended its scope of operation in the preceding years, e g, sugar factories have been directly contracting with the peasants for the purchase of beet root and supplying in return industrial fodder. There are examples of dairy farms, which have been directly contracting with the peasants. This method is now to be more extensively used. Contracts are voluntary for the peasants. The main incentive is the price and the tied supply of producers goods. This provides a method of indirectly planning agricultural production on individual farms. The system of contract is constructed in such a way as to make larger farms specialise in production which is less labour-intensive and so it lends itself to mechanisation, whereas small farms are to specialise in the most labour-intensive activity, i e, slaughter animal production. The larger farms can intensify grain production and raise cattle, whereas small farms are to specialise in labour-intensive products, such as root crops and hog raising. The system of prices and credit will be the main instrument in this policy. The agricultural circles will undertake the supervisory task of ensuring quantitative and qualitative implementation of contracts.

(3) Adjustment of the land tax system: the fund raised hitherto through compulsory delivery system is to be converted into a land tax which is paid in money and not in kind. The difference between the old and the new tax will be allocated to the Agricultural Development Fund. However, the degree of progression in this tax system is to be reduced.

Meanwhile, the inter-sectoral saving-investment relationship has undergone a significant change. Agriculture is no longer the main source of financing investment in the industrial sector. The surplus in the agricultural sector is now invested in agriculture itself. Although the State provides credit, it also earns a significant quantum of foreign exchange from agricultural produce. The level of investment in agriculture is relatively low at present (15.4 per cent of the total investment outlays at 1961 prices)[25] in the economy as a whole. However, in the recent period, investment outlays in agriculture increased faster than those in the economy as a whole. If the index of outlays was 100 in 1960, the index of overall outlays was 200 in 1969 whereas in agriculture it was 259.

It is recognised that agriculture needs technical progress. But at the present moment, the absorptive capacity of investment in agriculture is not unlimited because of the small-scale individual farming where substitution of labour by mechanisation is not yet economic from the social point of view. Although current production in agriculture is labour-intensive, the investment and goods required are highly capital intensive. (It is true that part of the investment can be non-monetary, i e, by labour and its own resources such as building.) The capital-output ratio is extremely high in agriculture relative to industry. For example, in 1956-1960 it was 3.8, in 1961-65 it was 6.0, in 1966-69 it was 22; whereas in industry in the corresponding periods it was 2.5, 2.5, and 2.6, respectively.[26] This shows the magnitude of investment which is required per unit of output in agriculture today. With a limited investment fund, this sets a limit for the allocation of investment to agriculture *vis a vis* industrial sector at present. Thus, from the point of view of the economy as a whole, it is still economic to utilise the existing slack in agricultural sector—family labour in peasant farms—until industry develops further. Undue substitution of labour by mechanisation is neither economic for agriculture, nor helpful for industrial productivity as it unnecessarily inflates employment in industry. From 1956 to 1960, the rate of increase in employment outside agriculture was 2.4 per cent, from 1961 to 1965 it was 3.4 per cent, and from 1966 to 1970 it was 3.3 per cent. Thus the production increase from 1961 to 1970 was achieved through higher investment and with a comparatively high increase in employment—i e, labour productivity did not come up to the mark.[27] The increase of employment in the economy, outside agriculture, was higher than the increase in the manpower reserves, and was due in part to the outflow of manpower from agriculture. The increase in employment in industry was accompanied by an increase in the number of members of peasant families taking up work in industry but continuing to live in the countryside and cultivating their farms.

From the point of view of both the current production and the current investment, the agricultural policy has to be adjusted in terms of the existing social structure in agriculture and in accordance with the changes that are taking place within this structure.

The rural stratification has the following features:[28]

(a) The percentage of the kulak farms which employed permanent labourers dropped from 42 per cent in 1947 to 9 per cent in 1957; it is now less than one per cent;

(b) The land reform created a very large number of small farms. Between 1950 and 1960 the rate of growth of farms, within the group up to 2 hectares, increased by 43.4 per cent whereas the group above 2 hectares increased by only 2.9 per cent. However, this was not the result of fragmentation of medium farms, but of the landlords' land. The fastest rate of decline was that of the capitalist farms. The trend was also towards the diminution of the larger farms. The main buyers of land were the small farmers, and the sellers were the large ones. The number of farms above 15 hectares declined by 30,000 in 1960. Consequently, the role of the smaller farms, particularly of the group of 10-15 hectares, increased. Thus the medium farms became the backbone of the Polish agriculture;

(c) There emerged a very large number of peasant workers with very small holdings;

(d) The findings of the Institute of Agricultural Research for the period 1962-1967 show that (i) within the group up to two hectares, only plots up to 0.5 hectares increased, whereas the group from 0.5 hectares to 2 hectares decreased in number; (ii) the group of 2-10 hectares decreased whereas the group above 10 hectares showed an increase in number. The group 15-20 hectares showed the strongest tendency to increase. This seems to be the optimum size for a family farm under average conditions. The largest farms about 20 hectares declined in number.

The main trend seems to be the adaptation of the size of the farm to the amount of its own family labour available.[29] This is one of the main causes, for the flattening in the degree of rural stratification.

The source of income, and the income differential within the agricultural sector as well as between the agricultural and the industrial sectors, is yet another important aspect of the economic condition of the rural population.

The following information for the decade 1960 to 1970 is relevant in this regard:

(1) During this period, the income from agriculture grew at a very

slow rate of 1.5 per cent per annum per head.

(2) The income from earnings from work outside agriculture grew much faster than the rate of growth of income from agriculture.[30] The share in the total income of the agricultural population increased from 19 per cent to 31 per cent. The differences in the income of the particular groups of peasant holders diminished significantly. The income difference between the agricultural population and the non-agricultural population worsened.

The larger farms show a lower rate of accumulation than the smaller ones. In 1968-1969, the rate of accumulation in the respective groups of farms was as follows: in the group 7-10 hectares it was 15 per cent, in the group 10-15 hectares it was 14.6 per cent, in the group 15 hectares and above it was 12.4 per cent of the income earned in the respective groups.[31] The State played an increasingly larger role in providing funds to individual farms. From 1961 to 1965, the fixed investment in the peasant farms rose by 35 milliard zlotys of which 21 milliard was provided by the peasants themselves and the rest, i e, 40 per cent, was provided by the State credit. The corresponding figures in the next five years show the rise of the fixed investment to 50 milliard zlotys, of which peasants themselves provided 22 milliard whereas the rest, that is, 56 per cent, was provided by the State credit.[32]

An assessment of the strategy of a step-by-step transformation of Polish agriculture towards eventual socialised forms requires consideration of the basic question: whether it will ensure the socialist transformation of peasant farms or whether it will rather lead to the development of capitalism in agriculture.

The possibilities of peasant farms' development towards capitalism have to be considered in the following context: socialised forms of production and management are developing in the agricultural system; State farms are growing in size, output, and economic performance; co-operative farms show a rapid growth of production and an overall improvement. Let us consider now the possibilities of the three groups of the peasant farms.

We have noted earlier the tendency of medium farms to reach an optimum size which is above 10 hectares but no more than 20 hectares. This is the key group. The number of farms larger than this is declining due to wage cost, and also shows the lowest rate of accumulation.

The smallest farms, up to 2 hectares, and now even the farms up to 7 hectares, are mostly owned by worker-peasants. This is a transitional phenomenon. The worker-peasants maintain these farms to supplement their food supply. As the market supply increases, as it should with the development of agriculture, these farms will gradually disappear. Already the income from gainful employment outside the family farm is playing the dominating role in the functioning of the family farm. Taking up employment by the farmer results, as a rule, in the holding being run by his wife. Hence, the number of farms run by women amounted to an equivalent of 20 per cent of all the peasant farms in Poland in 1966.[33] So the question is whether the group holding 7-10 hectares can become a nucleus of capitalist development. How large can they grow? Their tendency is to go beyond 10 hectares but the limit seems to be 20 hectares. So there is a limit to the incentive to accumulate beyond a certain amount — "the limit being set by the maximum size that a peasant farm can profitably attain".[34] The State policy counteracts the growth of capitalism in agriculture, on the one hand by progressive taxation, and, on the other, by helping small peasants through credit policy, forward contracts, and supply of means of production.

The Agricultural Circles can play a decisive role in raising the output of peasant farms, in mechanisation, in forming embryos of socialist accumulation in peasant farming, and in spreading the idea of co-operative farming. They have already initiated co-operative forms of husbandry and collective work on the improvement of the land held by the State Development Fund. Forms of collective action and simple partnership are also being introduced in other co-operative organisations. Following the extension of the forward contract system the scope for the development of links between food processing industries and peasant farms has increased. It is possible to develop agricultural combines combining farming with processing at the country level. The village agricultural circles are now linking with one another. This increases the possibility of an eventual emergence of socialised farms linked with agricultural combines on a county scale.[35]

The incentive for the medium farmers to join socialised farms will be the difference in their income and the income of the agricultural workers in co-operatives and State farms. At present the consumption level of the State farm workers is not very significantly higher than that of peasants in general.[36] Eventually, it is the long working hours in individual farms which will motivate individual peasants to join socialised farms.

Poland has not yet found a New Model for the process of socialisation of agriculture through all its stages. But one need not be too worried about that. After all, the construction of a blue-print for all the phases of the transitional period — which may be a long one — is not exactly in the spirit of Marxism.

TABLE 1: STRUCTURE OF FARMS OF DIFFERENT SIZES ACCORDING TO LABOUR FORCE AVAILABLE

Size Groups in Hectares	Number of Farms ('00)	Farms in Percentage according to Labour Supply in Days Per Hectare			
		Upto 50	50-100	100-200	Over 200
0.5-2	2845	13.3	1.3	9.0	76.4
2-5	3786	7.4	8.7	48.8	35.1
5-7	1505	7.5	32.5	55.4	4.6
7-10	1825	10.4	59.3	29.2	1.1
10-15	1523	20.9	69.0	9.8	0.3
15-20	331	46.8	49.3	3.9	—
Over 20	188	76.6	22.3	1.1	—
	12006	13.0	45.0	16.6	18.7

Note: Farms having upto 50 hours of labour per hectare are considered to be short of labour, those having 50-100 hours of labour per hectare are considered to have sufficient supply of labour, and those having more than 100 hours of labour per hectare are considered to have a surplus of labour.

Source: A Wyderko, "Zmiany w zasobach sily roboczej w indywidualnych gospodarstwach chlopskich w latach 1962-1967", Studia i Materialy, z 247, IER, Warszawa, 1970, s 5.

TABLE 2: ANNUAL RATE OF INCREASE IN PERCENTAGE OF CONSUMPTION FUND OF PEASANT POPULATION FROM AGRICULTURAL INCOME AND FROM NON-AGRICULTURAL INCOME IN 1965 STABLE PRICES, 1960-1970

Size Groups of Farms in Hectares	From Agriculture	From Outside Agriculture	Together
0.5-2	1.1	6.9	4.3
2-7	1.1	10.6	3.3
Over 7	1.8	9.8	2.4
Aggregate	1.5	8.3	3.1

Source: E Gorzelak, Z Grochowski, "Dochody Ludnosci Rolniczej", *Nowe Drogi*, Number 10, 1971, p 142, from Table 3.

Notes

1 See Jozef Okuniewski, Rozwoj Rolnictwa w 25-leciu PRL, *Nowe Drogi*, Number 7, 1969. See Witold Lipski, "Agriculture in Poland", Warsaw, 1969 (in English), for a useful descriptive account; Jerzy Tepicht, 'Problems of the Development of Polish Agriculture', in "Social and Political Transformations in Poland", PWN, Warsaw, 1964. The statistical information upto 1965 is covered by these sources and Concise Statistical Yearbook of Poland, Warsaw, 1969. 1 hectare = 2.47106 acres; 1 quintal = 220.462 lbs; Zloty is the Polish currency.

2 "Wytyczne KC PZPR na VI Zjazd Partii", *Nowe Drogi*, Number 10, 1971.

3 Programme Report of the Political Bureau for the Sixth PUWP Congress, p 14. Also, Report of the Central Committee of the PUWP, November 1971, pp 8-23.

4 See Karl Marx, "Critique of the Gotha Programme", and Karl Marx and F Engels, "Selected Works Volume II", Moscow, 1955, p 23. Also see Althuser and Baliber "Reading Capital", London, 1970, for an important textual study of Marx and particularly for the problem of transition.

5 For a fuller analysis see M Dobb, "Capitalism, Development and Planning", Delhi, 1967, p 94.

6 See M Kalecki 'Glos w Dyskusji o Kierunkach Perspektyw Rozwoju Rolnictwa', in "Z Zagadnien Gospodarczo-Spolecznych Polski Ludowej", Warsaw, 1964, and also his introduction to the "Theory of Growth in a Socialist Economy", Oxford, 1969.

7 See E Preobrazhensky, "The New Economics", Oxford, 1965, Chapters 2 and 3, and also M Dobb, "Soviet Economic Development since 1917", London, 1957, pp 183-185.

8 Lenin, 'On Co-operation', in "Questions of the Socialist Organisation of the Economy", Moscow, 1970, pp 359-366. See, for an interpretation of Polish agricultural policy as an application of Lenin's principles: Henryk Cholaj in *Nowe Drogi, Number 4, 1970, pp 151-7.*

9 See A Donnithorne, "China's Economic System", London, 1967, Chapters 1 and 2. For the evolution of Chinese agricultural policy through the process of adjustment to concrete situations, from the 'San ZiYi Bao' policy (Introduction of Free Market in rural areas in 1961) to the 'Tachai Spirit' (Learn from Tachai — moral incentive) see, Wheelwright and McFarlane, "The Chinese Road to Socialism", Chapters 3 and 8, New York, 1970. Although in the amalgam of moral and material incentives, the overwhelming emphasis is on the moral incentive, there is no evidence to suggest that material incentives have, as yet, been eliminated. Household plots still survive. For the role of the Tachai spirit in agriculture, see, "Tachai Spirit Being Emulated", *Far East Trade and Development*, September 1970. However the commercial sector in China is seen as a link between the agricultural and industrial sectors, thereby consolidating the worker-peasant alliance. The exchange of goods is still the only form of economic tie between the agricultural and industrial sectors acceptable to the peasant at the present stage; hence the system — of buying and selling — and not of expropriation is used within the economy.
Apart from the small amount of agricultural tax the State obtains its vast amount of agricultural raw materials through the exchange of commodities. Agricultural produce such as grain, non-staple foodstuffs, and industrial raw materials, are purchased by commercial departments and sold to the industry and the cities. Peasants are supplied with machinery, the means of agricultural production, and consumer goods through trade "China — Supply and Marketing", *Far East Trade and Development*, January 1971, p 37.

10 For a very interesting discussion on the question of socialist transformation of villages see: "O Socjalistyczny Rozwoj Wsi", Dyskusja, Warsaw, 1964.

11 H Minc, 'Charakter i tendencje rozwojowe naszego przemyslu', *Nowe Drogi*, I, Number 3, May, 1947, p 35.

12 "Wytyczne w sprawie naszego ustroju gospodarczego i spolecznego', *Nowe Drogi*, II, Number 10, July-August 1948, 83 ff.

13 W Gomulka, speech at the 8th Plenum of the PUWP, *Nowe Drogi*, Number 10, 1956.

14 J Okuniewski, *op cit.*

15 "Wytyczne KC PZPR na VI Zjazd Partii", *op cit.*

16 "*Rocznik statystyczny rolnictwa*", 1971, pp 353, 354.

17 *Ibid*, pp 364, 365.

18 "Wytyczne KC PZPR na VI Zjazd Partii", *op cit*, pp 45-49, and P Jaroszewicz, Report at the Xth Plenum of the PUWP, *Nowe Drogi*, Number 7, 1971, p 15.

19 See Z Zekonski, 'Zmiany w strukturze spozycia w latach 1960-1968', in *Gospodarka Planowa*, Number 11, 1969, p 9, Table 4.

20 Kalecki warned against this policy at that time. See Zycie Gospodarcze, 1964.

21 It is interesting to note that co-operatives should first undertake plant production and only later animal production. This idea can be traced to Kautsky; it was developed by O Lange and M Breit during the inter-War period in Poland. For a different conclusion see R Manteuffel, *Zagadnienia Ekonomiki Rolnej*, 1969, Number 2. However, his data cover only the period upto 1966. Later, in the sixties, the burden of evidence shows that the family farms have an advantage over the co-operatives and State farms in Poland. In this respect, the role of the household plots seems to have been similar in China: see A Donnithorne, *op cit*, pp 83-86.

22 S Rochna, "Wplyw cen na produkcje zywca wieprzowego w *latach szescdziesiatych*" in *Wies Wspolczesna*, Number 7, 1971.

23 *Compulsory delivery, however, is* not a specific instrument of the *socialist economy; it* was first introduced in Poland by Kaiser Wilhelm II.

24 Even within the Chinese communes, the contract system has been used. See A Donnithorne, *op cit*, pp 53-54.

25 "Rocznik statystyczny Rolny", 1970, p 98. *A relatively* lower rate of investment in agriculture *is* a common feature in all the European socialist countries. See W Misiuna, "Doskonalenie zarzadzania i planowania rozwoju uspolecznionej gospodarki rolnej w krajach RWPG", *Gospodarka Planowa*, Number 6, 1969, p 26, Table 4.

26 See W Herer, "Procesy Wzrostu w rolnictwie", Warszawa, 1970, p 73.

27 Report of the Central Committee of the PUWP on the period between the Fifth and the Sixth Congresses, Warsaw, 1971, p 10.

28 See A Szemberg, 'Przeobrazenia struktury agrarnej chlopskiego rolnictwa', *Nowe Drogi*, Number 7, 1969.

29 See Table 1.

30 See Table 2.

31 *Rocznik Statystyczny Rolny*, 1971, p 175.

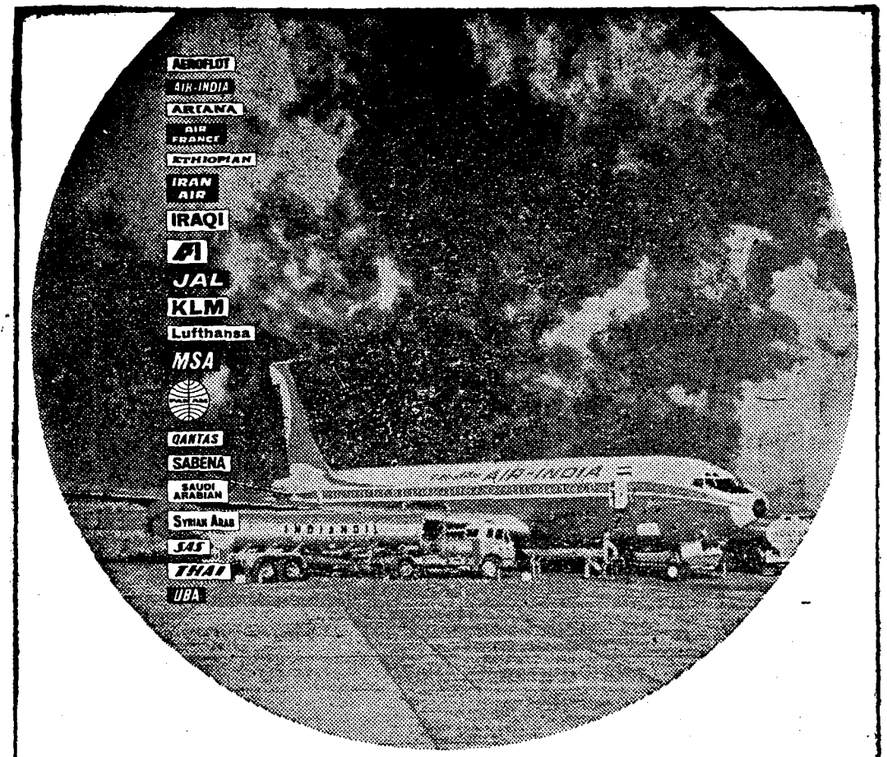
32 E Gorzelak, Z Grochowski, 'Dochody Ludnosci Rolniczej', *Nowe* Drogi, Number 10, 1971, p 149.

33 C Farkowski, "*Roznicowanie sie* produkcyjnosci gospodarstw chlopskich w Polsce", in *Wies Wspolczesna*, Number 10, 1971.

34 The contrasting case is India's New Agricultural Policy, which is the typical case of promotion of capitalism in peasant farming. "A survey conducted in the economics of large-scale farming in Punjab revealed that, between 1955-56 and 1967-68, farms between 100 and 150 acres in land-size increased their total land, mainly through purchase, by 38 per cent, whereas farms of 20-25 acres did so only by 4 per cent." Ashok Rudra, 'The Green and Greedy Revolution', *South Asian Review*, Volume 4, Number 4, July 1971, p 301.

35 "Wytyczne KC PZPR na VI Zjazd Partii", *op cit*, p 49.

36 E Gorzelak, Z Grochowski, *op cit* p 144.



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BRUSSELS

Pompidou's Referendum

LIKE his predecessor in the Elysee palace, Georges Pompidou has dramatically underlined the two basic facts of European integration. The first is the fragility of the edifice the Europeans have been building since 1958, when the Treaty setting up the EEC came into force. The second is that the road to European integration still passes through Paris.

But there is another, and perhaps more significant, side to President Pompidou's decision to ask the French whether or not they approve of the enlargement of the Common Market. The very fact that a referendum is to be organised on the question of European integration is evidence that the man-in-the-street in France is beginning to think about Europe.

It is more than likely that a referendum on the EEC in 1958 would have revealed widespread indifference to it. Even during the French presidential elections some 10 years later attitudes to the Common Market had only a marginal influence on the number of votes received by each candidate.

But increasing French awareness of the EEC's existence hardly explains President Pompidou's decision to hold a referendum. In fact the variety of reactions to the announcement and the multiplicity of explanations that were put forward once the initial shock and surprise had worn off, suggest that the French President is pursuing a number of objectives, domestic as well as European.

Not Unexpected

Officially Common Market circles here are maintaining a discreet silence — even though they should have been the first to applaud so democratic a gesture as actually consulting the populace on a key issue. A senior official took the view that the President's announcement, while it may have taken everyone by surprise, was not altogether unexpected. He pointed out that the question of whether to follow de Gaulle's example of organising a referendum on certain key issues had been discussed only recently in French presidential circles. As Pompidou himself was of the view that the institution should be kept alive, he was simply taking the first opportunity of doing so by announcing a referendum on the EEC's enlargement.

But as Shakespeare pointed out, timing is all; and it is the timing of the announcement which seems to have shocked the British and led many of them to charge Pompidou with trying to block Britain's entry. Their case is a plausible one. At a time when Heath's government is struggling to push the necessary implementing legislation through Parliament, the announcement of a French referendum on whether or not to let the British into the EEC can be expected to irritate even the pro-Marketeers in Britain and to strengthen the anti-Marketeers in their demands for a referendum in the UK.

In view of President Pompidou's obvious admiration for Heath, it is difficult to believe that the French President set out deliberately to give aid and comfort to Britain's anti-Marketeers, let alone pave the way for Wilson's return to Downing Street. French circles have argued that the referendum will strengthen Heath's hands, by demonstrating to the British that the French, long regarded as the principle obstacle to their entry into the EEC, in fact welcome it. Hence an April referendum, while Parliament is still debating the implementing legislation.

Vote of Confidence?

But this assumes that the French will vote overwhelmingly in favour of enlargement. Certainly a recent public opinion poll indicated that a majority of Frenchmen favour Britain's entry, but this does not mean that a referendum would give largely similar results. The plain truth is that General de Gaulle saw the referendum as a vote of confidence in himself and his government rather than a means of ascertaining the public's views on a given issue.

There is little doubt that his successor sees it in much the same way. What is even more important, this approach to the referendum is shared by Pompidou's political opponents also. The Secretary-General of the French Communist Party, Georges Marchais, claimed that Pompidou was trying to find a way out of his difficulties on the home front "by organising a referendum which is nothing more than a plebiscite". The President of the Centre Democratic Party, Jean Lecanuet, warned the President that the outcome of the referendum would in no case amount to an approval of the Government's policies.

By their comments the Opposition leaders and the press made it abundantly clear that they regard the forthcoming referendum as an astute move in domestic politics. As the left-wing newspaper, *Combat*, pointed out, a referendum on Europe is quite unnecessary as it is obvious that a majority of the nation favours the enlargement of the EEC. The political cartoonist of the conservative daily *Le Figaro* explained the implications of the referendum in a witty drawing of Pompidou driving Mitterand and Marchais apart by throwing a ballot box at their feet. The cartoon might in fact have been directly inspired by the remarks of the Secretary of the French Socialist party, who claimed that in choosing an issue over which the Socialists and Communists are known to be divided Pompidou was in fact seeking to break up their efforts at reaching a working arrangement on domestic issues.

The referendum obviously has put the opposition in a tight spot. The Socialists, who have always supported European integration, which they regard as necessary if Europe is to become socialist, presumably will have to ask their supporters either to vote in favour of enlargement — or to abstain. As the Communists cannot be expected to support enlargement, both parties probably will settle for abstention.

The opposition parties, most of which are staunchly pro-European, may well choose abstention as the only way open to them to prevent Pompidou from getting the massive support which he obviously is counting on. But a call to abstain from participating in a referendum on so important an issue is unlikely to appeal to any but the most dedicated party members. As a result, the middle-of-the-road Frenchmen can be expected to vote for enlargement — and for Pompidou.

Pompidou's Objective

And it is this realignment of French political forces which most observers agree is what the President is seeking to bring about. With the general elections only a year away he is in effect trying to reform the Gaullist party, the UDR, which has been seriously shaken by scandals of vari-



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ous kinds in the past year or so. The referendum, it is argued, will unite around Pompidou the majority of French voters, while isolating all those who are at the two extremes of the political spectrum. Even the orthdox Gaullists, as represented by the former prime minister and minister of foreign affairs, Couve de Murville, are expected to find themselves cast into political limbo.

An overwhelming vote in favour of enlargement clearly would represent a personal victory for Pompidou, who would emerge as the undisputed leader of not only France but also the enlarged EEC. His position on the European scene would certainly be strong enough for him to resist any threat of a bid by Heath for the leadership of Europe. The French have always feared that in an enlarged EEC the British will call the tune to which the others will have to dance; their Common Market policy, not surprisingly, has been aimed at consolidating France's position in the EEC while at the same time outflanking British moves to secure the leadership of the Community.

With his plans for a referendum Pompidou has proved himself a master strategist. His announcement has left the opposition parties in disarray; at the same time it has placed the Elysee above party politics. Although the French President has put Heath in an awkward position, he certainly hopes to come to his rescue in a dramatic fashion with the proof, supplied by the referendum, that the French overwhelmingly favour Britain's entry.

But as General de Gaulle discovered to his cost in 1968, even the best laid plans can go wrong.

UGANDA

First Year of the Second Republic

T V Sathyamurthy

THE recent disclosures of the mass killings of the Acholi and the Langi (two northern tribes) of Uganda during the first year of the "Second Republic of Uganda" throw new light on General Amin's leadership and, in particular, on the relations between him and the military in Uganda. Perhaps it should be emphasised at the outset that the tribal killings in Uganda have by no means been confined to the army barracks; the civilian population, not restricted to the Langi and the Acholi, has in places also been subjected to intimidation (in Karamoja and recently in Teso) and arbitrary cruelty by the army and the civil administration. Those sections of the populace known or even thought to have supported former President Obote and his party, the UPC (Uganda People's Party) are treated with especial severity by the authorities.

The main antagonism within Uganda during the first decade of independence related to the Baganda, a strong and populous intra-lacustrine tribe with a highly centralised monarchical politico-administrative structure which served as the sheet anchor of the colonial power. Buganda was used by the colonial authorities as the base from which to colonise the remainder of what is now known as Uganda. The rise of nationalism throughout Uganda, however, limited the political influence of the Baganda and eventually led to an estrangement between the colonial power and the Kabaka (the King of Buganda).

The independence Constitution of Uganda (1962) was the result of a political compromise between the UPC led by Obote, a Langi and a nationalist leader with republican, proto-socialist political convictions, and the Kabaka, a traditional monarch who regarded the Baganda as superior to the other tribes of Uganda. An uneasy alliance between the UPC and the Kabaka Yekka or the Kabaka Only (KY), supporters of the Kabaka, soon ended over differences involving disputed territory between Buganda and her neighbouring kingdom and traditional enemy, Bunyoro. Obote firmly carried out his promise to hold a referendum in the two disputed counties which resulted in their restoration to Bunyoro. The "lost counties" issue brought Obote and the Kabaka to the brink of open confrontation.

With eighteen months of the referendum it became clear to Obote and his supporters that unless the Kabaka was brought under firm political control, the unity of Uganda would become seriously jeopardised and the UPC itself would be turned into an arena of factionalism, power struggle and intrigue. A series of moves and counter-moves made by the opponents of Obote and Obote himself quickly brought the army into action. Within the army Obote's staunchest supporter was Amin (then a colonel). It was then generally believed that though the two men belonged to different tribes (Langi and Kakwa, respectively), both shared, as northerners, a common suspicion of the Baganda and dislike of their outmoded institutions. Furthermore, they had forged close links of co-operation during the aftermath of the Congolese border incidents of 1964, as a result of which Obote committed a sizeable proportion of national resources to strengthen and equip the armed forces. The feeble attempts of the Kabaka to enlist foreign support to overthrow Obote's government were thwarted by the army which, under Amin's leadership, unleashed a reign of terror, persecution and mass murder of the ordinary Baganda. The Kabaka went into exile, the Baganda (with the exception of Obote's supporters) entered upon a phase of sullen withdrawal from the national political arena, and eventually the traditional monarchies were abolished. All Uganda, including Buganda, was brought under the framework of a unified pattern of administration, and political equality gave way to protection and privilege. Uganda became a republic under a new constitution with Obote as President.

From the beginning, it was clear that the price of unification would be the enduring hostility of the Baganda —the largest single tribe (15 per cent of the total population) occupying the heartland of the country. Thus, despite the fact that Obote was able to isolate and incarcerate his main opponents within the UPC before the final *denouement* leading to the collapse of the monarchy, his position as a popular leader was considerably weakened. His main support came from peripheral districts (Bugisu, Lango, West Nile, Bunyoro); in the other districts his popularity rapidly decreased. The net result of the developments of 1965-66 was the strengthening of the army and within it the position of Amin. Obote was thus forced to rely on the army for support. The increasingly unequal relationship between Obote whose influence among the populace diminished and whose control over the UPC was not sufficient to ensure him a readymade power base, and Amin

whose strength within the army and among the people of the north correspondingly increased, led to their mutual estrangement and loss of confidence.

Between 1967 and 1970, Obote made a series of moves designed to strengthen the party and increase participation in politics, to limit the growing power of the army, and to counter-balance the increasing influence of Amin within the armed forces. He promoted to higher ranks young officers of whose loyalty he could be sure by virtue of their tribal affiliations (Langi and Acholi). But the vested interests in the government and the UPC had by then become too powerful for Obote's efforts to improve the image of the UPC to have any effect; and Amin had become practically invulnerable both by virtue of the loyal support he commanded in key sectors of the army and the control he exercised over the more modern and mechanised elements of the armed forces (chiefly tanks). Obote himself became isolated after an unsuccessful attempt on his life towards the end of 1969. Ironically, at a time when he was proposing far-reaching changes in the party structure and the pattern of political participation (the Common Man's Charter and the Five Documents of the UPC), he was practically a prisoner in the clutches of the notorious General Service Unit (GSU) which he had originally set up to act as an information system but which developed into an Ugandan version of espionage run by a band of armed men (largely trained in Israel) under the leadership of the President's cousin, Akena Adoko. It is quite likely that Akena Adoko was secretly paving the way for taking power from Obote but there is no concrete evidence in support of such a possibility. It was therefore impossible for Obote to project an image of a popular leader—not only in Buganda but also even in parts of Uganda where only a few years ago he used to be treated with respect and admiration.

Obote's attempt to promote a few Langi and Acholi in the army led to an immediate *contretemps* between him and Amin. The occasion for the coup was provided by the Commonwealth Prime Minister's Conference in Singapore in January 1971 which Obote attended. Amin captured power and the joy of the Baganda over the removal of Obote was so immense that they forgot the part played by Amin in the tribal massacre of 1966. They greeted Amin as their saviour. Obote's fall was by no means received with uniform glee throughout the country. In certain parts of the country (esp, Lango, Bugisu and Acholi) Amin's coup was viewed with apprehension even though Obote's downfall was not particularly lamented. The events of the first year of the Second Republic provide ample evidence to support the view that the Baganda were premature in their celebration of Amin's victory, and the Langi, Bagisu and the Acholi among others have been justifiably stricken with fear.

Amin's strategy of consolidation seems to have consisted in placating the disgruntled Baganda, whilst systematically eliminating opposition (a) within the army and (b) within the country. The first he hoped to achieve by ordering the ceremonial burial of the late Kabaka Mutesa II who had died in chill penury in England and by allowing his son Prince Ronald Mutebi to visit Uganda as his guest. But he was soon besieged with requests from the Baganda to order a general restoration of the traditional monarchy. By July 1971, it was clear that Amin was not going to change the political structure of Uganda to accommodate Baganda revivalism.

He sought to accomplish his second aim by permitting systematic murder of all officers of Langi and Acholi extraction and the imprisonment of ordinary soldiers belonging to these tribes in concentration camps under indescribably cruel conditions. This policy was triggered off by the discovery of an alleged plan within the army to overthrow Amin, a few months after the coup, with the aid of Amin's most able minister, Ovonji. When Amin returned from Europe, Ovonji disappeared from the cabinet and a number of key figures in the administration and the army thought to have been tainted with suspicion were brutally murdered. The actual horrors have only recently been related but even when some of the scenes of this grisly tragedy were being enacted, information came to light of the sluice gates of the Nile in the Owen Falls dam having to be opened to permit the disappearance of dead bodies; and of long processions of women trekking with their children from the army barracks of Jinja where their husbands had been slain to their rural homes in the North. Not since the wholesale elimination of the Tutsi by the Hutu in Rwanda has such a systematic tribal massacre been attempted in East Africa. And this account does not include the many killings that take place in the countryside often committed by excited and bloodthirsty soliders exercising their omnipotence on the spot.

The Second Republic of Uganda, within a brief span of thirteen months, is already notorious for its tribal massacres — a policy the beginnings of which stretch back to 1966 but the current victims of which are the distant and helpless peoples of Lango and Acholi. Amin has put paid to the favourite myth that the main schism of Ugandan politics separates the Bantu from the Nilotic peoples. It would seem that the principle of ethnic antagonism operating on the scene is directly related to the proportion of power between the different ethnic aggregations as perceived by the various protagonists. The politics of Uganda have become so coarsened by sanguinary vengeance that it is highly unlikely that a predictable political order will be restored in the foreseeable future.

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Towns in a Tribal Setting

Ramesh Chandra Gupta

Towns in the Tribal Setting, by Brij Raj Chauhan; National Publishing House, Delhi; pp xiv+207; Rs 25.

THIS book is based on a research report on "Towns as Centres of Diffusion in the Tribal Setting in Rajasthan". In its present form, the book is designed to contribute (1) to cultural anthropology through its focus on the primitive setting and the process of diffusion; (2) to urban sociology because it is the town that has been considered as a lamp-post of diffusion; (3) to rural sociology since the study shows how some of the settled rural communities (tribal and non-tribal) are responding to the challenges of urbanisation, how the travelling influences of contemporary urban-industrial civilisation through the vast network of small and large towns are reaching these remote areas and to what extent these are accepted, rejected or modified by the tribal and rural folk; and (4) to policy-making since the aimed and achieved insights are intended to benefit those who are engaged in the task of linking the tribal and non-tribal rural communities to the mainstream of the country's socio-economic and political development.

The book has eight chapters all of which lock and interlock with the central theme that is the main concern of the last chapter entitled 'Process of Diffusion'. Chapter 1 gives a general picture of the district of Banswara, where the towns and villages under study are located, on the basis of available records and census data.

Chapter 2 gives a biographical sketch of the two towns and the four villages selected for intensive study. Banswara is the largest town of the district. Besides being the district headquarters, marked by administrative paraphernalia, Banswara has a princely feudal background and now has many urban characteristics. Kushalgarh, which is a tehsil town now, has a similar princely and feudal background. Khandu is a multi-caste, multi-religious, large village. Ghatol, is a big village. Unlike Khandu, it is marked by an administrative complex; it has an important Forest Range Office and a centre for collecting excise revenue. Ranjhia is a small tribal village, six miles from Ghatol. Surpur is a village seven miles from Banswara on the Banswara-Ghatol road; it is a multi-caste village, where men of roughly 20 castes live.

Chapter 3 shows how formal education was almost non-existent upto the 19th century in this area, how it has grown at a faster rate since Independence and the level now reached. From the account in the book, one gathers the impression that the area is still very backward in education. Chapter 4 deals with the state of health and medicine. It shows how the 'modern' system of medicine is becoming popular and replacing 'tribal' and 'traditional' systems, and in what way the social structure often interferes with modern approaches to problems of health and hygiene — as in Khandu, where Jain notions of 'ahimsa' (non-violence) come in the way of efforts to eradicate mosquitoes and malaria.

Chapter 5 deals with the political and civic consciousness in the area (as reflected in people's participation in the political and civic processes), and the role of voluntary agencies like the Zila Sewak Sangh, Gandhi Ashram, Christian Missions and the Arya Samaj, which are actively associated in the process of change. The area evidently is marked by a high degree of political consciousness; the poll percentage in the district has above the state averages at all general elections held so far.

Chapter 6 is devoted to describing the economy of the towns and villages under investigation. The main purpose is "to determine the extent to which the towns themselves possess urban characteristics in terms of material goods, occupational distribution, and mobility" (pp 109-10). Non-tribal contributions are here shown to be gradually ascending, and tribal contributions gradually descending, the primary-secondary-tertiary occupational scale. On occupational mobility, a transition from agricultural to non-agricultural occupations is under way. Material traits indicative of urbanity are found in greater numbers in the district town, in lesser numbers in the tehsil town, and are few in the villages under study. Further, they are more frequent among non-tribals than among tribals.

In Chapter 7 Chauhan has grouped recreational facilities and transport and communication to show their incidence in the area. Formerly, the area was very 'backward' in all these three respects but some progress has been made in recent times.

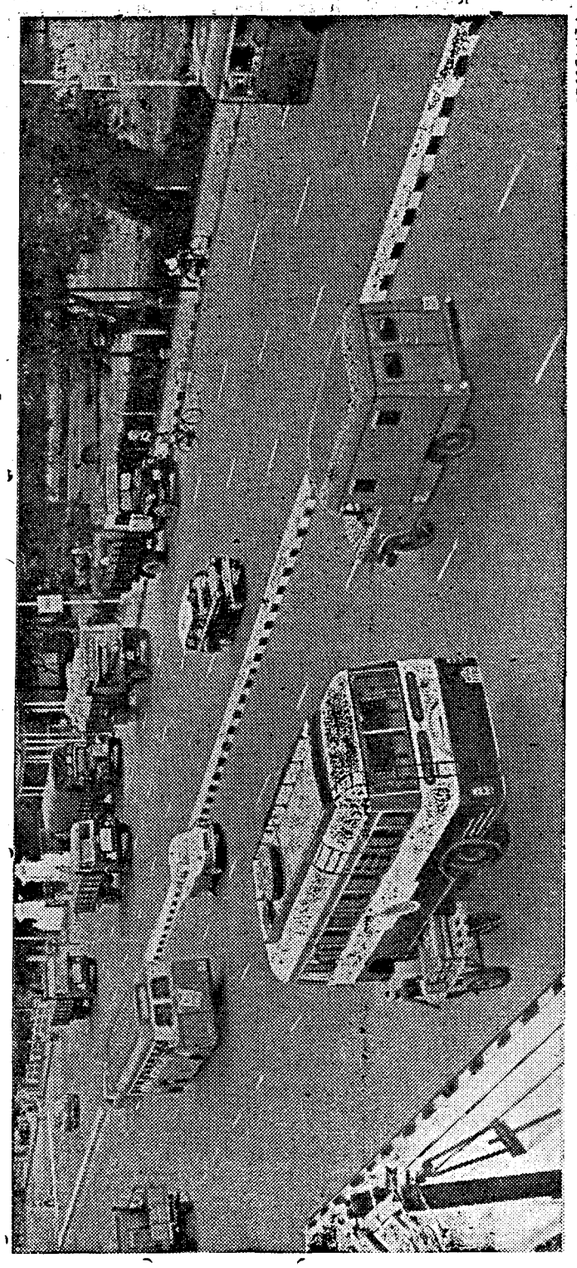
The features of urbanity which the towns under study either possess or lack are listed in Chapter 8. Then the question: who are the carriers of change or the agents of diffusion? is considered. Certain situations which are/or can be favourable or unfavourable for the spread of urban influences have been highlighted. Thus the underdeveloped character of the secondary occupations in the towns, the non-availability of occupations other than the unclean ones for the tribals, etc, disfavour centripetal tendencies of urbanisation, while an increase in hospital and hostel facilities, emergent new patterns of tribal leadership, the ever-increasing proportions of tribal children going to various schools and the mounting political consciousness among the tribals, are some of the plus-factors that are loaded with challenges needing to be coped with, if urbanisation has to be expanded smoothly.

Chauhan has suggested areas for further study and investigation — the rising tribal elite, the growth of education, popular social movements, the conflict and adjustment processes in a change situation and the famine relief programmes as they are related to developmental activities in an area of rich tribal concentration.

While one can hardly deny the contribution that Chauhan has made, by and large the book lacks focus and unity. It has no central theme so that the chapters are not tightly woven around any developing argument, position or hypothesis. The author tells us that his use of the term 'diffusion' was "nearer that of 'acculturation' given by Herskovits" (p viii). Elaborating his ideas on diffusion further, he observes:

> Sorokin's treatment of diffusion in his work on social and cultural mobility was found more *useful*. With his account on the study of cultural values, he meant by diffusion 'multiplication of the same cultural values in many copies and the spread of these copies'. Since diffusion can be of any material object or technical skill as well, the use of the term for cultural value by Sorokin is a case of *specific* use of the term 'diffusion'. For purposes of the present study with the focus on the understanding of urban elements the object of study for diffusion

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will be suitably amended. By substituting 'urban elements' for 'cultural values' in the definition of diffusion, we can indicate the use of the term for the study to mean multiplication of the same urban elements in many copies and the spread of these copies (p viii).

Yet, nowhere has Chauhan shown what intellectual frustrations led him to discard the Herskovitsian definition of diffusion and to draw nearer to his description of 'acculturation', nor has he shown in *substantial* terms in what manner this departure has been made. Furthermore, Sorokin's definition of diffusion seems identical with that of Herskovits and if, therefore, the definition of the former seemed *more useful* to Chauhan then the reasons must be other than the ones he has explicitly stated. Anyhow, one is not able to catch what the author has in mind.

A similar vagueness is apparent in his use of the term 'urbanisation'. Meanings of the term not only vary (see pp vii, 11, 14 and 33) they are also not clear. After a careful "review of anthropological and sociological literature on the subject" and after vigorous 'discussions' lasting over three months, the 'decision' arrived at was:

> "that the process of urbanisation be indicated by the growth of education and literacy, extension of secondary occupations, rise of mass media or communication, increase of mechanised transport, extension of modern medicine, the rise of formal organisations, increased political participation and use of modern or semi-modern articles at the household level" (p vii).

It is anybody's guess how this description of urbanisation is distinguishable from what goes under the label of modernisation. Besides, if this is the definition of urbanisation then the phenomenon must typically become non-existent in pre-industrial societies. But urbanisation has a long history. Further, in addition to these inadequacies, his use of the expression 'semi-modern articles' invokes curiosity, for nowhere has he elaborated what these are and how they differ from the ones called 'modern'.

Again, in Chapter 6, on the economy of the region, Chauhan's categorisation of material traits indicative of urban features into 'durable household goods' and 'household goods of ordinary use' is a meaningless hodgepodge of two dichotomies: durable/nondurable and ordinary/important. If we take durability into consideration, how are sofa sets, stoves, tables and chairs, etc, less durable than, say, radios, transistors, wrist watches and the like. If the second criterion is taken into account, how are woollens, footwear, torches, and cups and saucers less important than, say, cycles, transistors, steel almirahs, stainless utensils and the like?

One also finds irrelevant grouping of statements. In the chapter on education, Chauhan says:

> "The first primary school imparting education of English along with other subjects was opened in the town [Banswara] in 1902. Two years later, the first telegraph office was opened and British Indian currency was introduced" (p 48).

This is not the sole example: the same is true of his grouping of material elements of urban life with occupational patterns and occupational mobility. In Chapter 7, on transport and communication, Chauhan lists newspapers, cinemas, and fairs together without any sociological differentiation among them.

More than this was expected from a sociologist of Chauhan's standing.

Naval Upheaval

J P Dixit

Mutiny of the Innocents by B C Dutt; Sindhu Publications, Bombay; pp 238; Rs 25 or 35 s.

"MUTINY of the Innocents" is in the form of a personal narrative, yet it furnishes excellent material for historical research. The uprising of sailors of the Royal Indian Navy (RIN) was not an episode without tradition. As Dutt rightly points out, in the last hundred years of British rule the Indian armed forces had clashed with the Raj twice before—the sepoys in 1857, and the INA during the Second World War. The RIN uprising was a sequel to the struggle of the INA against British rule. The struggle, this narration shows, was not of the officers and the privileged ranks who were patronised by the British; it was a struggle of the lowest of the low—and it took place in face of the former. An important point, which the narrative makes, is that the ratings were not fighting for better food and other amenities. Their ultimate goal was to convert themselves into the navy of a free India, taking orders only from the national leaders. The uprising was total and complete.

Yet, the ratings in Bombay and Karachi—with ships, arms, and ammunition at their command, with soldiers of the Indian army refusing to fire on them, and with Indian airmen declining to bombard them—were eventually reduced to 'daydreaming innocents' only because the national leaders, on whose expected support they had built up their strategy, betrayed them. This tragic anti-climax to the historical drama has been well presented by the author. However, the author's treatment fails to answer the question of betrayal in historical terms. Why did the national leaders betray the ratings in their revolt against British rule?

The question cannot be treated in isolation or without reference to the attitude of the Indian National Congress—clearly under Gandhi's influence—in other such situations, e g, towards the revolting soldiers of the Garhwal Regiment in the late twenties and the fighting INA men in the early forties. That attitude leads one to question whether Gandhian 'non-violence' did not after all render easy the British task, during the most crucial times of the First and Second World Wars and after, of consolidating colonial rule in India. In the context of that attitude again—and in the context of the fact that the British-created anti-people and anti-national bureaucracy, the military hierarchy, and the State institutions, were all left intact—did the 'transfer of power' in August 1947 change the colonial character of the Indian State? At the simple level, Dutt has more than once expressed surprise at the fact that, while the pro-British Indian officers of the navy who had been anti-national during the uprising retained their positions, prestige, and power after Independence, the revolutionaries were left to waste in the wilderness.

Another such question, and perhaps the most significant of them all, is that of British withdrawal from India. It is intriguing that the then British Prime Minister had set June 1948 as the deadline for the withdrawal 'in any case'.[1] What prompted Cripps to say that "it was administratively and militarily out of the question to stay on beyond 1948"?[2] Why, after all, did the British suddenly give up their reluctance to leave?

Dutt's work is significant in this broad historical perspective. Was the June 1948 deadline the outcome, after all, of the patriotic impact of the INA

on the armed forces, of which the RIN uprising was the first salvo?[3]

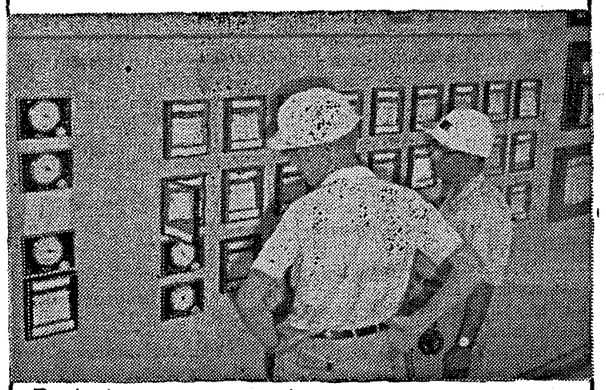
Dutt is no historian but he is a good narrator; consequently, his factual narration is of greater historical value than his subsequent treatise on the conditions of post-Independence India and of revolutionary struggles. He now and again, boldly and assertively, describes the treacherous role played by the national leaders in the entire episode; yet, in the final analysis, he appears to draw conclusions which point to the futility of all revolutionary struggles (see p 225). He refers to Gandhi in passages such as these: "it was India's unique distinction that she could respond to the challenge of foreign rule by throwing up a leader the like of whom the world had never known before", and "a saint who did not shirk his social responsibilities; his involvement in the socio-economic liberation of his people was complete" (p 228); etc. Dutt rightly points out that the process of disintegration of the British armed forces was the upstart of a patriotic-nationalist Indian armed might; yet he fails to explain the Congress's antagonism to the latter within a historical framework.

But this is not the flaw in Dutt's book alone. A scientific study of contemporary Indian history is, unfortunately, a method unknown to the present generation of scholars. Moreover, the official attitude is openly discouraging and often hostile. (Dutt found the Defence archives closed and the attitude of naval officials indifferent and non-co-operative with regard to the facts of the uprising of the ratings.)[4] Nevertheless, the valuable historical data provided by Dutt can be used by those students of contemporary Indian history who decide to venture into the subject despite official disfavour and popular disinterest in issues of historical process.

Notes

1 Alan Campbell-Johnson: "Mission with Mountbatten", p 353.
2 *Ibid*, p 26.
3 "Today", said Atlee on March 15, 1946, "the national idea has spread—not least perhaps among some of the soldiers who have done such wonderful service in the War" (quoted by Hugh Toye in "The Springing Tiger", pp 170-171). "...And there can be little doubt," comments Hugh Toye, "that the serious naval mutinies and the unrest in the other two services in early 1946 owed something to it, (INA influence). The British Prime Minister was himself to recognise this new feeling". (*Ibid*, pp 170-171).
4 See in this regard the Preface to R C Majumdar's book, "The Sepoy Mutiny and the Revolt of 1857", Calcutta, 1957.

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The Rashtriya Swayamsevak Sangh—III

Participation in Politics

Walter Andersen

Following Gandhi's assassination Golwalkar was arrested and the RSS was banned. Throughout the period of the ban (and after as well), the government assumed that the RSS was a political body. However, the government's assessment of the RSS's political nature was wrong, at least at that time.

The government often considered the RSS to be the volunteer arm of the Hindu Mahasabha. But what connections the RSS had with the HM were extremely tenuous and these connections had virtually ceased in 1940. Upto the time of the ban, many swayamsevaks were members of the Congress.

Hedgewar had refused to allow the RSS, as an organisation, to champion the cause of any political party. Until the ban on the RSS in 1948, Golwalkar gave the same advice. Members might participate in politics, but not as representatives of the RSS. The pracharaks *(the full-time cadres) were, and still are, explicitly forbidden from being members of any political party.*

The ban shocked the swayamsevaks. Many felt that the RSS had to transform itself into a political party if the movement were to survive. Sardar Patel, then Home Minister, himself feared that it might do this. He sought to prevent this and to bring the RSS cadres into the Congress. For a time, it looked as if he might succeed. In October 1948 the Congress Working Committee ruled that RSS members were permitted to join the Congress.

The Working Congress decision immediately set off a controversy within the Congress, with the supporters of Patel favouring the decision and the followers of Nehru opposing it. Eventually, Nehru persuaded the Congress Working Committee to deny membership to RSS men by stipulating that they could join, but only if they gave up their RSS membership.

These developments prepared the ground for those elements in the RSS who proposed more direct political involvement receiving a hearing within the Sangh that would not have been possible earlier.

[In the first part of this four-part narrative the origins and growth of the RSS were discussed. The second part examined the relationship between the RSS and the Hindu Mahasabha. In the fourth and final part, to be published next week, will be examined the genesis of the Jan Sangh and the role played by the RSS in its formation.]

VIII

AT 5.30 pm on Friday evening, January 30, 1948, Gandhi was assassinated by Nathuram Vinayak Godse. Gopal Godse, brother of Nathuram, explained the motive behind the action:

> "Our motive was not to achieve control of the government; ... We were simply trying to rid the nation of someone who had done and was doing great harm to it. He had constantly insulted the Hindu nation and had weakened it by his doctrine of ahimsa. On his many fasts, he always attached all sorts of pro-Muslim conditions ... He never did anything about the Muslim fanatics. We wanted to show to Indians that there were Indians who would not suffer humiliation — that there were still men left among the Hindus."[182]

Nathuram Godse was a Chitpavan Brahmin, as were a disproportionately large number of Maharashtra's political activists and revolutionaries.[183] Like so many of the Maharashtrian revolutionaries, he was deeply influenced by the message of Hinduism and the militant Hindu rulers of Maharashtra. He sought to carry his revolutionary message to the masses in a way that would arouse their support. He propagated the message at the patriotic melas (festivals). He felt that temples were an ideal place to preach nationalism. He sought to connect the Hindu practice of worshipping the land with a worship of Bharat.[184]

He came into contact with Savarkar in 1929 when his father was transferred to Ratnagiri district of Maharashtra and soon became a disciple of his.[185] He actively participated in his anti-untouchable campaigns in Ratnagiri. In the early 1930s, he joined the RSS and was the literary secretary of a branch.[186] He moved to Poona as a tailor, but decided not to become a householder. He spent his free hours with the RSS and the HM.[187] In 1944, at Poona, he revived the *Agrani* newspaper to represent 'Savarkarism'.[188] Godse believed that the RSS, after 1940, was not relevant to the political struggle and began his own organisation modelled on it but with a more explicitly political purpose.[189]

Prominent leaders of the HM, including Savarkar, were put in jail following the assassination. The RSS was banned on February 4, 1948, and various newspapers were closed.[190] Gandhi's assassination also become the occasion for particularly violent anti-Brahmin violence in Maharashtra.[191] The *Leader* of Allahabad reported,

> "Nagpur has just recovered from three days of turmoil, violence, and confusion. During the three days the city has witnessed mob fury which some described as '1945 Reversed'. Fourteen houses of Maharashtra Brahmins, some staunch Congressmen, were ransacked and their belongings burnt and the buildings damaged."[192]

In Uttar Pradesh, the state Chief Minister declared that disciplinary action would be taken against any government worker with RSS sympathies.[193] The official government communique banning the RSS claimed that the RSS

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"have indulged in acts of violence involving arson, robbery, dacoity and murder and have collected illicit arms and ammunition."[194] The thrust of the argument undoubtedly referred to RSS activities in Punjab, Delhi and parts of what now is Pakistan. RSS leaders themselves admit to 'defensive' use of arms. But in the bloody cauldron of communal riots, it was not just the RSS or even primarily the RSS that was engaged in the use of arms. Mary Doreen Wainwright, using the papers of Francis Tuker, whose military command in 1947-8 included eastern Punjab and Delhi (after August 1, 1947) writes,

> "From the middle of 1946 ex-INA men were busy in Bengal and the Punjab, and in 1947 they were helping to train the Congress volunteers, the RSS Sangh, and the Muslim League National Guard, while in August 1947 ex-INA Sikhs were active in organising the attacks of their co-religionists on the Muslims in the Punjab."[195]

Moreover arms were plentiful and easily available,

> "A report on illicit arms in India, prepared in May, concluded that vast quantities of unlicensed arms and ammunition were in the possession of unauthorised persons, and that in Bengal and the Punjab the accumulation was on a scale beyond the power of the executive police forces and the provincial security authorities to check."[196]

Penderel Moon maintains that the Sikhs were primarily responsible for the violence and migration of peoples as they desired to have a compact Sikh population in eastern Punjab and this required the resettlement of some 2,000,000 Sikhs and the expulsion of the Muslims who lived there.[197] He mentions that in Bahawalpur state the Sikhs were the most feared and also the object of most hate and violence.[198] "To kill a Sikh had become almost a duty; to kill a Hindu was hardly a crime. To rob them was innocent pleasure carrying no moral stigma. . ."[199] This view was also prevalent among Hindus and Sikhs towards Muslims. This activity was defended in legislatures and favourably reported upon in the press. RSS leaders have mentioned to the writer that officials in east Punjab provided the RSS with weapons which they were to use to defend Hindu refugees on their way to India. As mentioned above, the Home Minister, Vallabhbhai Patel, saw a certain usefulness of the RSS in protecting the Hindus. There is frequent reference in RSS literature to a scheme in Delhi whereby a number of RSS youth 'became' Muslims to thwart a plot on September 10, 1947 of a Muslim group to assassinate all members of the Indian Government and plant the flag of Pakistan on the Red Fort in Delhi.[200]

On May 15, 1948, a notification in the *Gazette of India Extraordinary* identified nine persons in the plot to assassinate Gandhi, of whom Savarkar was one. The trial opened on May 27 in the Red Fort at Delhi. On February 10, 1949, the court pronounced judgment, exonerating Savarkar. Nathuram Godse and Narayan Apte were sentenced to death. No connection then or now has been made showing any RSS involvement. On November 8, Nathuram Godse submitted his final statement to the court. He denied that there was a conspiracy.[201] He claimed his motive was not just simply opposition to Gandhi's fast to restore Hindu-Muslim unity, but what he felt to be Gandhi's intention to force the Indian government to pay Pakistan Rs 55 crores — its share of undivided India's financial holdings.[202] Godse, by his own admission, was in a hurry to rid India of Gandhi before the doctrine of non-violence, represented by Gandh, "destroyed" India.[203]

Shortly after the murder of Gandhi, Golwalkar condemned the murderers and closed all operating shakhas of the RSS for 13 days.[204] However, the official wrath of the government was soon to descend on the RSS organisation. The Uttar Pradesh government was only one of several which threatened withdrawal of recognition and forfeiture of grants-in-aid to any school which allowed the RSS to use school grounds.[205] Teachers suspected of being RSS sympathisers were dismissed. On February 3, 1948, Golwalkar himself was arrested. Before his arrest, Golwalkar instructed the swayamsevaks not to engage in any violence. He also temporarily disbanded the organisation.[206] However, the most loyal swayamsevaks continued to meet each other under the guise of study groups, sports clubs, or devotional activities. Below, we shall discuss one such mutation on college campuses, a centre of RSS activity. It took the garb of a student organisation geared to presenting an ideological alternative to communism and a conciliating agency between faculty and student.[207] The mass arrests of RSS leaders,[208] the banning of the organisation, the popular outburst of violence against their members, were all a great shock to the RSS, which was at the height of its popularity.[209]

As no evidence of a conspiracy in the Gandhi murder appeared, the government's argument for continuing the ban was that the RSS created an atmosphere conducive to violence. By August 1948, however, most of the 20,000 or so swayamsevaks who were arrested were released. In Uttar Pradesh, for instance, only some 400 were still in jail in early May of a total of some 4,300 originally arrested.[210] Moreover, the UP Home Minister instructed district magistrates to scrutinise the lists of the detained persons to see whether they too could be released.[211] On August 5, Golwalkar was released from prison as the six-month statutory period of detention had expired and there was no tangible proof linking him with the murder of Gandhi. His release, however, was hedged by a number of restrictions. One was that he was not to leave Nagpur district.[212]

On September 24, 1948, Golwalkar wrote to Nehru asking him to lift the ban. He stated that the RSS was the one effective check to the "de-nationalising" activities of the communists.[213] In return, Nehru stated that this was a matter for the Home Minister; moreover, he proposed the evidence suggested that the RSS was engaged in communal activity which the government meant to oppose.[214] Golwalkar wrote back that if the RSS were engaging in communal activities, the government should prove this charge in a court of law.[215] The Prime Minister responded that Golwalkar should contact the Home Minister and that a "mass of information" indicated that the RSS had engaged in anti-national and violent activity.[216] Golwalkar's response is interesting in that he makes a large issue of the RSS being aloof from politics.[217] However, as we shall show below, the issue was being considered seriously. Golwalkar's correspondence with Vallabhbhai Patel reveals Golwalkar's astute analysis of Patel's desire to get the RSS to co-operate with the Congress. On September 24, he wrote to Patel that the RSS could counter the growing influence of communism among the youth, and particularly among students,

> "If for one feel that if you with Government power and we with organised cultural force combined, we can soon eliminate this menace. I am intensely worried at the waves of victory of that foreign 'ism' which are sweeping over our neighbouring countries."[218]

On September 11, Patel's response to Golwalkar pointed to the opposition of the RSS to the Congress party.

> "In this delicate hour there is no place for party conflicts and old quarrels. I am thoroughly convinced that

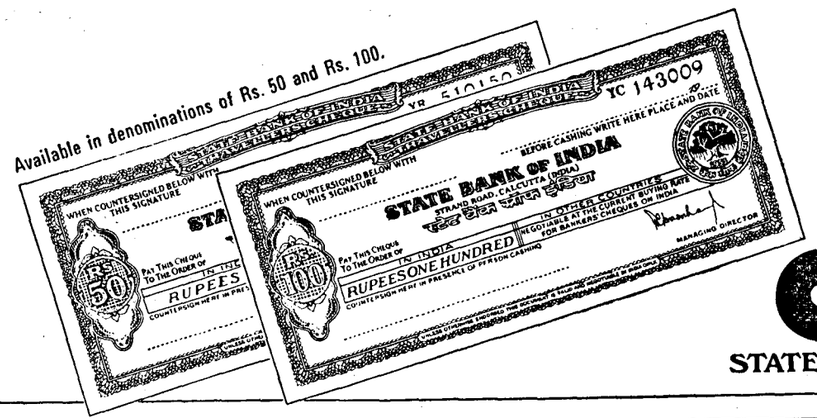
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> the RSS men can carry on their patriotic endeavour only by *joining* the Congress and not by keeping separate or *opposing*."[219]

Patel, meanwhile had asked the provinces for their opinion on continuing the ban on the RSS; they recommended that it should continue. Patel would not meet further with Golwalkar, partly because of this development. The restrictions on Golwalkar, which had been lifted some two months before were reimposed and he was asked to return to Nagpur. In October 1948 the restrictions had been lifted so that he could go to Delhi to confer with Patel.

In a letter of November 5, Golwalkar indicated that he had come to Delhi to work out some sort of co-operative agreement with the Congress in which the Congress would work in the political field and the RSS in the cultural. As this was not possible, he mentioned that the RSS would have to strike out on a path different from the Congress.[220] He was arrested on November 15 and flown back to Nagpur and jailed again. Anticipating this move, Golwalkar issued an order on November 13 to swayamsevaks to defy the ban by holding shakha. Golwalkar explained his change of mind after November 2 by stating that the government refused to lift the ban and had unjustly restricted his movements.[221] Basically his argument was directed to two issues: (1) the rights of free citizens to meet together were endangered; (2) the country's welfare depends on the continued existence of the RSS. Accordingly, P B Dani, the General Secretary of the RSS, called for a resumption of the shakhas on December 9, 1948. It was to take the form of a peaceful satyagraha. Besides starting up the shakhas, there were organised marches, and the shouting of slogans demanding the release of Golwalkar.[222] Many of those participating were students and government workers, two groups from which RSS has received a large part of its support. The satyagraha was directed by Eknath Ranade, one of the few major leaders of the RSS not in jail during the satyagraha. The movement was to have been directed by Dani, the General Secretary, but he was arrested. There was an established line of command, should any leader be arrested. This procedure was worked out at lower levels as well.[223]

From November 1948 Golwalkar was in the Seoni jail. The RSS satyagraha was directed by Eknath Ranade. Ranade went to Mussoorie secretly to meet Patel at the home of G D Birla to discuss the ban. The meeting turned out to be a disaster, according to Ranade, as Patel insisted that the RSS had created a climate of violence. At another meeting with Ranade, Patel informed him that he wanted the RSS members to join the Congress and support his views within the Congress.[224] Another prominent actor in the drama to end the ban was Mauli Chandra Sharma. He organised the Jana Dhikar Samiti (People's Rights Committee). This group organised protests against the "unlawful" abridgement of civil liberties of the RSS. He, Ranade, and a Tamilian lawyer, T R Venkatrama Shastri, were instrumental as intermediaries between Golwalkar and Patel. Shastri prepared a constitutional document and took a draft of the proposed constitution to the Seoni jail in March, which conformed to the ideas of the October discussions with Patel. Golwalkar approved it, but the government delayed making a decision because it wanted Golwalkar to submit the document to the Central Provinces government, to give the impression that the initiative had come from Golwalkar and not the Home Ministry.[225] Golwalkar then contacted the Home Ministry of the Central Provinces on April 11, 1949, forwarding the constitution suggested by Shastri.[226] However, the Home Ministry had serious objections to this draft, stating that it did not conform to defects pointed out in the October consultations with Patel. The weaknesses, according to the Home Ministry, were that it had no specific statement abjuring violence, no statement on allegiance to the Indian Constitution and national flag, no provision for publishing rules and instructions, and no provision for a published audit of accounts, no provision for the popular election of office bearers, and included a life-pledge. There is also a charge relating to the predominance of Maharashtrian Brahmins.[227] On May 17, Golwalkar responded to the criticisms, disregarding some of the charges as spurious and disagreeing with others.[228] The Home Ministry responded that

> "...the Government of India regret to note that your attitude in regard to the activities of organisation RSS seems to have undergone no change. Not only do you see nothing wrong in the ideologies and activities of the RSS in the past but you suggest that the organisation would be guided by the same ideology and pursue the same methods in the future."[229]

Meanwhile Patel contacted Mauli Chandra Sharma and instructed him to go to Nagpur to carry on further negotiations. Golwalkar wrote to him on July 11. He discussed the eight major points of disagreement with the government,[230] claiming that he and the government did not basically disagree on any of them. The disagreement, in effect, amounted to the government's not believing the *bonafides* of the RSS.

The RSS was not democratically organised in the usual sense of the term, then or now. Rules on succession followed the traditional model of a Hindu math (monastery) where the guru chooses his successor and subordinates. While it eventually accepted the principle of democracy, it has never acted in the spirit of democracy. To have done so would have destroyed the organisation as conceived by Golwalkar and other RSS leaders. Patel's aim all along was the absorption of the RSS cadres into the Congress. As the organisational leader of the Congress diumvirate, Patel undoubtedly recognised the value of a committed cadre — which the Congress lacked. RSS sources claim that he hoped to use this cadre to support him *vis-a-vis* the supporters of Nehru.[231]

Mauli Chandra Sharma, Eknath Ranade, and Deendayal Upadhyaya prepared the document that was accepted by the government. On July 11, 1949, the government lifted the ban, noting that,

> "The Government of India conveyed to the RSS leader their reactions to the draft and he had now generally accepted the suggestions made by the Government of India and the clarifications made by him indicate that the relevant provisions of the Constitution are intended to be worked in the spirit contemplated by the Government."[232]

On his release from prison, a reporter asked Golwalkar what had changed in the RSS. Golwalkar responded that the RSS had "given up nothing."[233] At Nagpur, he stated that "There was no compromise. There was no undertaking of any kind given to the government."[234]

Throughout the ban period (and after as well), the government assumed that the RSS was a political body. Consequently, it was very much concerned that it establish its non-political *bonafides*. However, the government's assessment of its political nature was wrong, at least at that time. The government often considered the RSS to be the volunteer arm of the HM. What connections the RSS had with the HM were extremely tenuous and these connections had virtually ceased in 1940. Up to the time of the ban, many swayamsevaks were members of the Congress. Hedgewar had refused to allow the RSS, as an organisation, to cham-

pion the cause of any political party. Until the ban on the RSS in 1948, Golwalkar gave the same advice. Members might participate in politics, but not as representatives of the RSS. The *pracharaks* (the full time cadres) were explicitly forbidden from participating in any political party and are still forbidden from participating. The ban shocked the swayamsevaks. Many felt that the RSS had to transform itself into a political party if the movement were to survive. Patel himself feared that it might do this. He sought to prevent this and bring the RSS cadres into the Congress. For a time, it looked as if he might succeed. On October 7, 1949, the Congress Working Commitee ruled that RSS members were permitted to join the Congress. Part of the disposition of the Congress to accept the RSS could be attributed to the deteriorating relations between India and Pakistan in 1949-1950. Before the Working Committee meeting, Golwalkar met Patel in Bombay along with RSS General Secretary Dani. He told reporters that the purpose of his visit was to convey his good wishes to the ailing Patel.[235] It would be interesting to know if any 'quasi-political' topics were discussed.

The Working Committee decision immediately set off a controversy within the Congress, with the supporters of Patel favouring the action and the followers of Nehru opposing it; the organisational wing of the Congress supported the move and the parliamentary wing opposed it.[236] As the Congress had a relatively weak president, Pattabhi Sitaramayya, the decision could not have been taken without the strong backing of Patel.

A G Kher, Minister of Local Self-Government in Uttar Pradesh and a staunch follower of Patel, responded to the criticism by asking why certain Congressmen opposed the RSS when members of the Arya Samaj or the Jamaat-ul-Ulema were eligible,

> "It cannot be that they were involved in Gandhi's murder, for they were exonerated of that charge in court of law. Nor that they had not followed Patel's advice as to the functioning of the group."

He noted that Golwalkar had even exhorted his followers to be friendly to the Congress. He continued by saying that,

> "calling them Fascists, abusing and insulting them, and again and again repeating old charges does not serve any purpose, nor is it a Gandhian method. To ban their entry into the Congress fold is a further exhibition of intolerance and hatred, and is a breach of moral obligation implied in our offering certain terms which were accepted by them."[237]

His main argument was a strictly political one and one that Patel must surely have endorsed.

> "... the members of that organisation cannot take part in politics unless they join some political organisation. The main political parties are the Congress, the Socialists, the Communists, the Hindu Mahasabha, the Muslim League, and RSPI. Do we desire that RSS youths should join other groups which are opposed to Congress, or should we desire they should join us? Let those who desire that RSS should not be admitted even as primary members of Congress understand the implications of their attitude. They are compelling RSS men to join the opponents of Congress if they have to take part in politics. If none of our organisations take them in their fold, then they will be compelled to persuade their organisation to take to politics, which again will be a problem for the Congress."[238]

This advice proved prophetic, for this is exactly what happened. When Nehru returned from abroad, he was instrumental in persuading the Working Committee, meeting on November 17, 1949, to deny membership to RSS men, by stipulating that they could join, but only if they gave up their RSS membership.[239]

Kher must have known of the intense internal debate going on within the ranks of the RSS over whether it should in fact go into politics. Contradictory statements by various individuals close to the leadership in the RSS over the wisdom of entering politics appeared in the English language news organ closely associated with the RSS.[240] At the time, Golwalkar was opposed to the RSS becoming a political party. Article four of the RSS constitution specifically prohibited the RSS from taking part in politics.[241] During the ban Golwalkar did reveal the extent of the internal debate on the issue when, in answer to a question on whether the RSS would enter politics, he stated,

> "I do not know. After the ban has been lifted and swayamsevaks have an opportunity to meet together, they can if they like convert the Sangh into a political body. That is the democratic way. I for myself cannot say anything. I am not a dictator. Personally, I am outside politics.
> "But why should people drag us into politics? We are happy with them as politicians and ourselves as swayamsevaks."

IX

The discussion of the possible RSS response to politics did not originate with the ban in 1948; the ban only forced the question into the open. One of the most prominent RSS colleagues of Golwalkar told the writer that as independence neared "we began to think independence for what? After all, we have a separate ideology. If we don't spread it in all fields of life, we will stand to lose as others occupy positions of influence in various fields."[242]

Much confusion exists over the role of the RSS relating to the formation of the political party that reflected the ideology of the RSS and which the RSS did help form. I plan to give the history of that formative process, for it does give a strong hint of the then influence of the RSS as well as the future relationships of the two groups. I will also discuss the politician who was most instrumental in founding the Jan Sangh and who convinced RSS leaders to assist him in forming the young party.

The Jan Sangh owes its formation primarily to the efforts of Shyama Prasad Mookerjee, the former President of the HM. Mookerjee was a Bengali Brahmin who belonged to that group of wealthy and educated Hindus referred to as the bhadralok. The bhadralok (polite people) were usually higher caste Hindus who owned land and took advantage of the opportunities presented by British rule in nineteenth century Bengal. Many moved to Calcutta, then the capital of British India, to take advantage of an English education and the new professional opportunities that developed during British rule. This group composed the political elite in Bengal, providing the young Congress with its supporters and later supplying the revolutionary groups with their members.[243]

Mookerjee's grandfather was one of the first graduates of Calcutta University and his father, Ashutosh Mookerjee, was a prominent lawyer and later a member of the Calcutta High Court and Vice-Chancellor of Calcutta University between 1906-14 and 1921-23. His mother was a deeply religious Hindu. Mookerjee himself graduated from the most prestigious college in Calcutta — Presidency College. He then studied law at Lincoln's Inn in London and was called to the English Bar in 1927. He returned to Calcutta in 1927 and in 1929 was elected to the Bengal Legislative Council as a Congressman from the University constituency. Ideologically, he was a Responsive-Co-operationist. When the Congress boycotted councils in 1930, he also resigned. In 1931, he was re-elected from the same constituency as an independent. In 1934, he became (at the age of 39) the Vice-Chancellor of Calcutta University. He formally joined the HM in 1938 and played a prominent role in its session at Calcutta in 1939. From December 1941 to November 1942 he was Finance member in the coalition cabinet of Fazlul Huq, Muslim leader of the Krishak Praja Party. He resigned in protest over the repressive policy of the British following the 'Quit India' movement. The ministry was in time replaced by a Muslim League-led ministry under the leadership of Khwaja Nazimuddin. During this time, he played an important role in the All-India HM, being acting president between 1940-44 (due to the prolonged illness of Savarkar). As independence approached, he organised the Hindustan National Guards in Bengal to protect Hindu interests. So effective was this group in rousing the Hindus of Calcutta that Francis Tuker, military commander of the area, wrote,

> "Mr Shyama Prasad Mookerjee of the Hindu Mahasabha had indeed instilled a fighting spirit into the Hindu population of Calcutta. Their attitude, which had been despondent, was one of elation in the spirit of battle and of determination to go down fighting."[244]

Throughout this period of political participation, Mookerjee revealed a Hindu reformist desire to unite the antagonistic Hindu castes and to uplift the low caste Hindus. It is a fact that he also defended the privileged position of the Hindus in Bengal. However, this must be viewed in the perspective of growing communal antagonism in that province.[245] Mookerjee felt that the Muslim political demand for greater control over education, job reservation, etc, were all thinly veiled attempts to destroy Hindu culture. As communal antagonism grew, he became more Hindu-oriented and eventually joined the HM. As shall be explained below, he never got along well with the Punjabi and Maharashtrian leadership of the HM. Moreover, he became increasingly disillusioned with the lack of activism and organisation of the HM.

Prior to 1938, the Bengal Hindu Sabha was divided into two rival factions, each grouped around a small cadre of prominent persons, typically lawyers. Neither group was well organised, nor did either have a large mass following. One favoured complete independence and the other some sort of commonwealth status for India.[246] The more radical faction led the move for the amalgamation of the two and its leaders quickly assumed leadership of the united group. The Hindu Sabha was transformed into a dynamic political party, the only successful HM party in India.[247] It had one of the largest provincial HM memberships.[248] The Sabha leaders in Bengal felt that the Hindu middle class youth, frustrated by lack of opportunities, could not be saved for the Hindu cause by a purely cultural organisation. The HM, they felt, would have to fight for Hindu rights in politics to increase their opportunities. Otherwise, the Sabha leaders feared, the Hindu youth might become communist.[249] A large part of the success of the Bengal Sabha was due to the large number of politically sophisticated and socially prominent lawyers and businessmen who joined the Bengal Sabha in 1938-39, one of whom was S P Mookerjee. The Sabha ran candidates in the Calcutta corporation and organised a Hindu party among Hindu legislators in the Bengal Assembly. They strongly favoured Savarkar's attempts to change the HM from a pale cultural forum to a specifically Hindu political group that would represent Hindu interests in India. This policy was finalised when Savarkar, in his presidential address to the 1939 HM session in Calcutta, remarked that, "The Hindu Mahasabha is not a Hindu Mission." Rather its aims were more political.[250]

In the 1940 Calcutta elections, the HM won 15 of the 47 general seats. Bose Congressmen won 21. The Muslim League 18 of 22 Muslim seats.[251] Prior to the elections, Congress-HM alliance talks broke down. B C Chatterjee, a HM leader, gave two 'all-India' reasons for this development. The first was the HM belief in violence and the second was the refusal of the Congress to fight the Communal Award.[252] The HM was particularly infuriated by the Bose-Muslim League pact after the elections, giving mayorship to the Muslim League and giving Muslims a high percentage of the positions in corporation services.[253] There was a small group within the HM who disagreed with the official anti-Muslim League line, fearing that a united Bengal would be endangered.[254] At the legislative level, four bills agitated the HM and Mookerjee. One bill for Calcutta would place many services under jurisdiction of a largely Muslim ministry; a second would place secondary schools under a board appointed by the provincial ministry rather than Calcutta University; another bill would partially write off debt of agriculturists to moneylenders (who were largely Hindu); a fourth bill proposed increased Muslim recruitment to the services. Mookerjee wrote to Savarkar,

> "A new decision has just now been made by the Ministry that if a Bengali Moslem is not available, no Hindu will be permitted to apply for such a post [in services] but efforts will be made to fill it by the appointment of Moslems from any other part of India."[255]

Bengal was one of the Provinces that the Congress did not capture in 1937. A ministry was formed by the largely rural Muslim, Krishak Praja Party under the leadership of Fazlul Huq. Huq, like the then Chief Minister of Punjab, was jointly a member of the Krishak Praja and the Muslim League. Huq and Jinnah clashed in 1941 and Huq resigned from the Muslim League, which led to a division of the Muslim members in the Krishak Praja Party. The Muslim League formed its own group in the Assembly under Khwaja Nazimuddin. Huq formed an alliance with a number of other parties, including the HM, in December 1941. Mookerjee took over the Finance portfolio.[256] A combination of events made this a short-lived ministry and on November, 1942, Mookerjee resigned from it. The 'Quit India' movement and the violence connected with it raised an embarrassing dilemma for Mookerjee. The British expected the ministry to fight the agitation.[257] Not only did Mookerjee resent this, but he recommended to the HM that it join the Congress agitation.[258] Mookerjee wrote to the Viceroy to get the British to formally recognise independence and initiate proceedings to form an Indian national government. In October, a second event convinced him that remaining in the cabinet was hopeless. A catastrophic cyclone struck Bengal, in which the destruction and deaths were staggering. Mookerjee blamed the British administration for negligence in aiding the people in the disaster area. In November, he resigned.[259]

Up to his resignation from the HM, Mookerjee's relations with other HM leaders were strained, as mentioned above. There was the personal factor. He simply did not have the same appeal that Savarkar did in Maharashtra and Punjab. He disliked the seemingly pro-British policy of the HM, its lack of organisation and lack of a dedicated cadre. Moreover, Savarkar often made decisions without consulting him, which he felt was both bad policy and bad tactics. In a blistering letter on April 4, 1944, Mookerjee wrote to Savarkar taking him to task for sponsoring a measure that would be economically injurious to Hindus,

> "It is all the more regrettable that you do not on such occasions find it possible to consult me but issue your statement *without attempting to* know the viewpoint of your colleagues."

He *strongly disagreed with Savarkar's support of coalition ministries* in which the HM participated under a Muslim League *leadership, as in Sind* and the N-WFP,

> "I fail to understand how the Hindu Mahasabha could have been allowed by you to help the Moslem League in establishing its Government in Sind and N-WFP with its Pakistan goal remaining intact..."

He concluded by threatening to withdraw from active participation in the HM.[260]

As mentioned above, events began to move fast in 1945, particularly in Bengal. In the Bengal Assembly elections, the Muslim League won 113 of 119 Muslim seats (in a house of 250) emerging as the strongest single party (Congress was next with 87). The HM won one seat. After failing to form a coalition with the Congress, H S Suhrawardy, leader of the Muslim League, formed a League Ministry with the help of independent members and scheduled caste Hindus. Serious riots broke out in Calcutta in February 1946. The situation grew more serious when, on August 16, 1946, the Muslim League called for "Direct Action". Francis Tuker noted the difficulty of the local police in dealing with these riots. Bribery and corruption among the lower ranks was rife, the detective department unreliable. Punjabi police imported by the Chief Minister were also unreliable.[261] During the later part of the year, tension grew in the Muslim eastern districts of the province, culminating in the Noakhali riots in October. Despite this the Chief Minister made pleas for an undivided Bengal and reserved judgment on joining Pakistan.[262] The Hindu Sabha authorised Mookerjee to form a Council of Action for the establishment of a separate homeland for the Hindus of Bengal.[263] It also authorised him to raise volunteers,[264] which, as mentioned above, did help to defend the Hindu community.

With the creation of a government after Partition, Mookerjee assumed office in the central cabinet as Minister of Industries and Supplies with the specific approval of Savarkar.[265] Meanwhile, Mookerjee and the HM leadership continued to be suspicious of each other. As early as 1945, Mookerjee proposed that the HM should include non-Hindus within it. The Hindu Mahasabha met in New Delhi two weeks after the assassination of Gandhi, under public disapproval for its alleged involvement in Gandhi's murder. It was widely speculated that Patel would ban the organisation, as he had banned the RSS. In Resolution seven, the HM Working Committee stated that the major issues for which it had fought had been accepted (i e, a strong central government, joint electorates, etc).

> "Pending the final determination by the All-India Committee, which should meet as soon as circumstances permit, the Working Committee feels that it must give a bold lead at this crisis especially in view of the tragic development towards Internal (*sic*) strife. The Hindu Mahasabha, therefore, resolves to suspend its political activities and to concentrate on real sangathan work, the relief and rehabilitation of refugees and the solution of our diverse social, cultural and religious problems for the creation of a powerful and well-organised Hindu society in independent India."[266]

The question of non-Hindus did not arise as the HM became what Savarkar vowed it was not — a Hindu Mission.[267] But at the August 8-9 meeting in New Delhi, the Working Committee revised its earlier decision. In Resolution four of the meeting, it was decided to review the suggestion to open the HM to non-Hindus. A committee was appointed by the president to make a report on "the reorientation of the HM.[268] However, the original resolution demanded that the issue be placed before the All-India Committee and the Working Committee to fulfil this condition.

Meanwhile, in late 1949 and early 1950 communal violence broke out again in East Pakistan and West Bengal. Nehru informed Parliament that between February 7, 1950 and April 8, 1950, 857,579 Hindus had crossed into India and 378,788 Muslims had left for Pakistan.[269] In the cabinet, Mookerjee joined Patel in taking a hard line towards Pakistan[270] while Nehru hoped for a negotiated settlement. Because of Nehru's decision to negotiate a settlement with Liaquat Ali Khan, Mookerjee resigned from the cabinet on April 1, 1950.

Bruce Graham suggests that Mookerjee did not form a new nationalist party as he first wanted to see who would win the struggle for power within the Congress. He suggests that the RSS was also keenly interested in the struggle. In both instances, he suggests that they intended to co-operate in a Congress in which Nehru was not the leader.[271] On September 2, 1950 Purushottamdas Tandon defeated Acharya Kripalani for the presidency of the Congress. Even before this, the old guard supporters of Patel had done very well at the state level. On December 15, 1950 Patel died. Nehru, who had left organisational matters to Patel, began to take an interest in the party organisation.[272] The anti-Tandon dissidents led by Kripalani formed the Democratic Front. The Front was working to get as many members as possible on the five man Central Election Committee. Nehru aimed to establish a consensus among the factions. A unity resolution was passed at the Ahmedabad meeting of the AICC, which postponed elections to the CEC.[273] However, when the AICC next met, all five of the dominants won. Matters came to a head when Nehru's close friend and ally, Rafi Ahmed Kidwai, resigned from both the cabinet and the Congress party. Kidwai issued a stinging rebuke to Tandon, stating that he was the antithesis of everything the Congress had represented.[274] Nehru forced the issue by resigning from the Working Committee on August 6 and from the CEC, claiming he could not work with people with "the wrong kind of ideas..."[275] Tandon and the rest of the Working Committee in turn resigned. On September 8, the AICC accepted Tandon's resignation and elected Nehru president. If the RSS and Mookerjee had any hope of working within the Congress, it was now out of the question.

The evidence indicates that Mookerjee did not intend to remain in a HM which operated as a political party. Immediately after the assassination of Gandhi, at the Working Committee of the Bengal Hindu Sabha, Mookerjee told the group, in effect, to cease operating,

> "Today, the ultimate power for shaping the destiny of our motherland rests on the Indian people themselves. It is manifest that if democracy is to function in free India, there is no occasion for communalism in Indian politics."[276]

Despite their stalling tactics in 1948 and 1949, it was obvious that the HM leaders desired an exclusively Hindu political party. V G Despande, Maharashtrian HM leader, wrote to Savarkar that there was no conspiracy within the HM to allow non-Hindus in, N B Khare, former Chief Minister of the Central Provinces, joined the HM and was elected its president at the 1949 session of the party in Calcutta. He left no doubt in his presidential address that the HM was a political party with Hindu Rashtra as its goal.[277] Mookerjee had already resigned as vice-president of the HM at the HM Working Committee meeting in Delhi in early May 1949.[278] A group of young men in Mookerjee's Bengal Sabha organised a lobby for an all-Hindu political party as early as 1948.[279] They succeeded in keeping the Bengal Sabha committed to an all-Hindu politically oriented HM. Having resigned from the cabinet, Mookerjee returned to Calcutta. He unsuccessfully tried to get the Sabha leaders there to join his new People's Party.[280] At about the time that the all-India version of Mookerjee's People's Party was in its formative stages, the HM finally resolved the issue about non-Hindus. On April 28, 1951 at Jaipur, a general session of the HM decided that the HM primary membership was restricted to Hindus.

(To be concluded)

Notes

182 Interview with Gopal Godse on May 13, 1969. In his book, "Gandhi Assassination and I", Gopal Godse mentioned that Nathuram decided that he would kill Gandhi when Gandhi announced his last fast. See p 20.

183 See Valentine Chirol's study, "Indian Unrest", London, 1910, and Maureen L P Patterson, "A Preliminary Study of the Brahmin versus non-Brahmin Conflict in Maharashtra," M A thesis, University of Pennsylvania, 1952.

184 Godse, *op cit*, pp 57-73.

185 *Ibid*, pp 64-5.

186 *Ibid*, p 67.

187 *Ibid*, pp 68-9.

188 Savarkar considered this newspaper the best exponent of his political views. Savarkar's secretary wrote to N R Shukla, an editor in Jubbulpur, on April 20, 1944, "If you request some ten Hindu Sabha workers there to subscribe [to *Agrany*]... you will be able to read the day-to-day thoughts [of Savarkar] as seen through our ideology." Letter in Savarkar Files.

189 Gopal Godse interview on May 13, 1969. It was Nathuram Godse's close relationship with Savarkar and the Hindu Mahasabha and his former membership in the RSS that led the government to suspect that Savarkar, the HM, and the RSS were involved in an organised conspiracy to kill Gandhi and overthrow the government. Participants in the assassination then and now deny both allegations and neither has ever been proved.

190 Keer put the number arrested at 25,000, *op cit*, p 404.

191 Both the HM and the RSS were led by Brahmins and were popularly assumed to be Brahmin organisations in Maharashtra.

192 *Leader*, February 8, 1948. Article went on to report violence spreading into rural areas, with some reports of murders of Brahmins.

193 *Leader*, February 5, 1948.

194 *Leader*, February 5, 1948. The communique also noted the fact that the governors' meeting in Delhi in November 1947 had discussed the Sangh's activities, but decided at that time not to ban it.

195 Mary Doreen Wainwright, "Keeping the Peace in India, 1946-7; the Role of Lieut-General Sir Francis Tuker in Eastern Command", in C H Philips and Mary D Wainwright (eds), "The Partition of India", Cambridge, 1970, p 131.

196 *Ibid*, pp 138-9. She reports vast quantities of arms of the US Army, which had been stationed in India, were in circulation despite its responsibility to destroy them.

197 Moon, *op cit*, pp 270-80.

198 *Ibid*, p 185.

199 *Ibid*, p 217.

200 For example, see, "Shri Guruji, the Man and His Mission", Delhi, 1956, p 34.

201 Page 2 of *Statement*.

202 Page 5 of *Statement*. Gandhi had insisted India pay; the payment was delayed due to problems in Kashmir. Godse also blames Gandhi for the Partition, though ironically it was Gandhi who, almost alone among the prominent Hindu Congressmen, held out against Partition.

203 Page 105 of his *Statement*.

204 *Leader*, February 2, 1948.

205 *Leader*, February 3, 1948.

206 The text of that statement contained in "Justice on Trial", Mangalore, 1968, Appendix VI, p 69. This document contains the correspondence between the government and Golwalkar concerning the ban.

207 This organisation, the Vidyarthi Parishad, continued after the ban was lifted, unlike most other such groups.

208 RSS itself estimated 20,000 people arrested at varying lengths of time. "Shri Guruji, the Man and His Mission", *op cit*, p 36.

209 Its membership is only now beginning to reach the level it was in 1947-8. There were in 1969 about 7,000 shakhas (units) and 100,000 members. Because of the rigorous standards before one is admitted into full membership, the number appears small. If one included those who occasionally participate in shakhas, camps, baudhik, etc, the number would be several times higher. Interview with Bala Rao Deoras, General Secretary of the RSS on April 16, 1969.

210 *Leader*, May 12, 1948.

211 *Ibid*. The figures apply to Muslim League National Guards, Khaksars and other Muslim militant organisations as well. But the large majority of the detained were members of the RSS.

212 See "Justice on Trial", Mangalore, 1968, Appendix VI, p 69.

213 *Ibid*, pp 8-9.

214 *Ibid*, pp 10-1.

215 *Ibid*, pp 11-4.

216 *Ibid*, pp 16-7.

217 *Ibid*, pp 17-22.

218 *Ibid*, pp 23-6. It is interesting that the correspondence with Patel was in Hindi while that with Nehru was in English.

219 *Ibid*, pp 26-8. On September 26, he again reiterated that it was through non-violent activity according to the rules of the Congress party that the government would offer sympathetic understanding to the RSS, pp 29-30.

220 *Ibid*, pp 30-5. At the breakdown of the talks Golwalkar released a press statement indicating that it was not the intention of the RSS to be a subsidiary of any political party, thus scotching the relationship talked of by Patel. *Ibid*, pp 76-7.

221 *Ibid*, pp 87-91.

222 See extensive summary of RSS activities in *Leader*, December 10.

223 Interview with Ranade on February 28, 1970.

224 Interview with Ranade on December 29, 1969.

225 *Mahratta*, July 15, 1949.

226 "Justice on Trial", *op cit*, pp 39-40.

227 "Justice on Trial", *op cit*, pp 40-4. It was frequently used in the press of the time. There is the assumption of the militancy of *Maharashtrians, a point* Gandhi himself sometimes made to show that Maharashtra was not fully committed to 'Truth' as he defined it.

228 *Ibid*, pp 44-9.

229 *Ibid*, p 51. The RSS suggestion that the alleged *subversive actions* be placed before a court was turned down on the grounds that the government alone is the judge of such activities. Consequently the ban continued, pp 50-3.

230 *Ibid*, pp 56-61. (1) Loyalty to the *Constitution of India and the state* flag; (2) policy of violence and secrecy; (3) election to Sangh bodies; (4) life-long pledge; (5) admission of minors to the Sangh; (6) Sarsanghchalak nominating his successor; (7) Sangh domination *by persons belonging to a particular* community from a particular area; (8) auditing accounts.

231 In a letter to Rajendra Prasad in 1948, Shankarrao Deo claimed that Patel was upset over the deplorable state of the Congress *organisation. Referred to in* Stanley Kochanek, "The Congress Party of India", Princeton, 1968, p 15.

232 Reprinted in "Justice", *op cit*, p 100.

233 "Justice", *op cit*, p 102.

234 *Ibid*, p 103.

235 *Mahratta*, August 19, 1949.

236 See a discussion of the two groups of Congressmen in Kochanek, *op cit*, Chapters I and II.

237 Statement printed in *Mahratta*, November 18, 1949.

238 *Ibid*.

239 RSS sources claim that this action was a source of friction between

the two leaders that ruled India between 1947-50. However, Patel did not push the point with Nehru, who was quite insistent in his opposition to the RSS. Nehru had, after all, given Patel, as far as records indicate, a completely free hand in handling the RSS question and did not openly question his move to lift the ban. Patel, if he had lived longer (he died in December 1950) might have again attempted to bring them in. The episode further demonstrates Michael Brecher's point that the two men respected each other and both, as far as possible, attempted to work in close consultation with the other without fomenting sharp conflict.

240 See discussion of this in Craig Baxter, "The Jan Sangh", Philadelphia, 1969, Chapter IV. The editor of *Organiser*, writing under the pen name of 'Kamal, wrote a series of articles in 1949-50 to support the idea of the RSS directly entering politics. He argued that the RSS must enter politics "not only to protect itself against greedy designs of politicians but to stop the un-Bharatiya and anti-Bharatiya policies of the government...." He was careful to emphasise that the RSS, as such, should remain outside politics, but that it should form a political expression of its ideology to preserve Bharatiya culture. See Part IV of the series in *Organiser*, December 14, 1949.

241 Patel must have insisted on its inclusion in the RSS constitution. Golwalkar agreed with the spirit of the prohibition.

242 Interview with Eknath Ranade, December 30, 1969.

243 See a discussion of the bhadralok in B B Misra, "The Indian Middle Classes", London, 1961, pp 393-5.

244 Quoted in Doreen Wainwright, *op cit*, p 275.

245 Politics in Bengal during the 1920s, 1930s and even into the 1940s was quite communal. Political parties, to a large extent, based themselves on one or the other community. Separate electorates of course encouraged this development. R C Majumdar notes that, "the two communities were generally regarded as distinct units in Bengal by the people themselves...." "History of the Freedom Movement in India", Volume I, Calcutta, 1962, p 33.

246 The lack of organisation of both is clearly spelled out in a letter by Ashutosh Lahiry to Baba Saheb Ganesh Damodar on July 12, 1938, in Savarkar Files.

247 Many of the leaders of the Hindu Sabha came from backgrounds of revolutionary participation. In the early part of the twentieth century, Bengal had some of the most active Hindu oriented revolutionary groups in India. Those revolutionaries were recruited almost exclusively from the Hindu middle classes. The *Sedition Committee Report* reveals that 165 of 184 *convicted revolutionaries* were bhadralok, Annexure 2 of *Report* Calcutta, 1918, p 226. Abdul Kamal Azad notes that, "all the revolutionary groups were actively anti-Muslim. They saw the British Government was using the Muslims against India's struggle and the Muslims were playing the Government's game." He goes on to note that a disproportionately large share of the police were Muslim, often imported from the United Provinces. "India Wins Freedom", Calcutta, 1959, pp 4-5.

248 In 1942 the Bengal Sabha had 41,050 members in 904 branches. *Taken from Report* of the General Secretary for 1942, in Savarkar Files.

249 One of the most critical HM leaders in Bengal, Ashutosh Lahiry, spelled out this concern in a letter to Parmanand on March 1, 1938, in Savarkar Files.

250 See speech in *Amrita Bazar Patrika*, December 29, 1939.

251 Official Congress did not contest elections because of the boycott. *Amrita Bazar Patrika*, March 30, 1940.

252 *Amrita Bazar Patrika*, March 17, 1940. The real reason, however, seems to have been inability to agree on allotment of seats.

253 *Amrita Bazar Patrika*, April 17, 1940.

254 Long description of this in B C Chatterjee's letter to Savarkar on June 5, 1940 in Savarkar Files.

255 July 28, 1940, in Savarkar Files.

256 This portfolio was particularly important to Hindu interests, considering their pre-eminent economic position in the province.

257 See Chapter VII in Balraj Madhok "Portrait of a Martyr", Bombay, 1969.

258 *Ibid*, pp 39-40. Savarkar and other leaders refused to endorse this as *they were concerned* with recruiting Hindus into the military and were wary about *offending the British*.

259 See resignation letter in S P Mookerjee, "A Phase of the Indian Struggle", Calcutta, 1942, pp 47-68.

260 Letter of April 9, 1944 in Savarkar Files.

261 Doreen Wainwright, *op cit*, pp 132-3.

262 Views expressed at a Delhi press conference and reported in *Leader*, April 28, 1947.

263 *Leader*, April 23, 1947.

264 *Ibid.*

265 From *interview with* HM leader in Bengal, Nimoz Chandra Sarbadhikary, July 12, 1969.

266 From "Record Book" of the HM.

267 The "Record Book" notes that Mookerjee was in attendance.

268 "Report Book" of the HM.

269 Figures given in Bruce Graham, "Shyama Prasad Mookerjee and the Communalist Alternative," in D A Low (ed), "Soundings in Modern South Asian History", Berkeley, 1968, p 338.

270 *Ibid*, p 339.

271 *Ibid*, pp 346-52.

272 Kochanek, *op cit*, p 34.

273 *Ibid*, pp 36-7.

274 *Ibid*, p 44.

275 *Ibid*, p 46.

276 *Statesman*, February 14, 1948.

277 *Statesman*, December 26, 1949.

278 Resignation noted in HM "Record Book".

279 *Ibid.*

280 *Ibid.*

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(in block capitals)

Production of Selected Industries

	Unit	1960-61	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	April-Sept 1970-71	April-Sept 1971-72	1970-71 1st Qr	1970-71 2nd Qr	1970-71 3rd Qr	1970-71 4th Qr*	1971-72* 1st Qr	1971-72* 2nd Qr
Mining																
Coal	Mn Tns	55.7	70.3	70.9	72.0	75.4	80.0	75.0	38.3	36.2	19.8	18.5	18.6	18.1	18.0	18.0
Iron ore@	Mn Tons	11.0	18.1	19.3	19.1	21.2	21.2	22.5	10.3	11.0	5.1	5.2	6.1	6.1	5.8	5.2
Metallurgical Industries																
Pig iron	Mn Tons	4.31	7.09	7.00	6.89	7.29	7.39	6.99	3.25	3.18	1.65	1.60	1.87	1.87	1.68	1.50
Steel ingots	Mn Tons	3.42	6.53	6.60	6.33	6.51	6.43	6.14	2.93	2.93	1.44	1.49	1.61	1.60	1.57	1.36
Finished steel	Mn Tons	2.39	4.51	4.49	4.05	4.70	4.80	4.48	2.02	2.08	1.00	1.02	1.15	1.31	1.07	1.01
Steel castings	'000 Tns	34	57	53	51	49	46	52	24	24	13	13	13	13	12	12
Aluminium (virgin metal)	'000 Tns	18.3	62.1	72.9	100.4	125.3	135.1	167.8	79.4	88.6	36.5	42.9	45.1	43.3	43.8	44.8
Copper (virgin metal)	'000 Tns	8.5	9.4	9.1	9.3	9.5	9.8	9.3	4.5	5.1	2.6	1.9	2.6	2.2	2.6	2.5
Mechanical Engineering Industries																
Machine-tools	Mn Rs	70	294	354	285	254	329	393	178	255	86	92	92	123	127	128
Cotton textile machinery	Mn Rs	104	216	169	158	143	196	303	149	171	74	75	75	79	88	83
Sugar mill machinery	Mn Rs	44	77	94	85	115	139	139	70	88	28	42	35	34	35	53
Cement machinery	Mn Rs	6	49	64	79	74	101	42	24	13	10	14	7	10	*	5
Railway wagons	'000 Nos	11.9	33.5	21.2	17.6	16.5	14.9	11.1	6.1	4.1	3.7	2.4	2.5	2.5	2.2	1.9
Automobiles (total)	'000 Nos	55.0	70.7	75.1	69.5	79.5	79.8	87.9	40.5	42.0	19.0	21.5	22.4	25.0	20.1	21.9
(i) Commercial vehicles†	'000 Nos	28.4	35.3	35.5	30.8	35.9	35.5	41.2	19.8	19.7	9.5	10.3	10.1	11.3	9.2	10.5
(ii) Cars, jeeps and land rovers	'000 Nos	26.6	35.4	39.6	38.7	43.6	44.3	46.7	20.7	22.3	9.5	11.2	12.3	13.7	10.9	11.4
Motor cycles and scooters	'000 Nos	19.4	40.7	47.8	56.9	70.8	91.0	97.0	52.2	55.9	25.9	26.3	22.1	22.7	27.9	28.0
Power-driven pumps	'000 Nos	109	244	311	288	317	359	259	125	82	61	64	78	56	44	38
Diesel engines (stationary)	'000 Nos	44.7	93.1	112.2	114.0	119.5	134.2	68.6	24.9	40.7	13.8	11.1	17.1	26.6	20.8	19.9
Diesel engines (vehicular)	'000 Nos	10.8	8.1	6.7	2.3	2.5	2.8	3.2	1.7	1.5	0.8	0.9	0.8	0.7	0.7	0.8
Bicycles	'000 Nos	1071	1574	1719	1684	1954	1976	2027	1018	976	538	480	513	496	510	466
Sewing machines	'000 Nos	303	430	400	370	429	340	235	59	161	14	45	85	91	89	72
Electrical Engineering Industries																
Power transformers	'000 K v a	1413	4458	494	5329	4729	5663	8086	3596	4147	1834	1762	2042	2448	2224	1923
Electric motors	'000 h p	728	1753	2095	2028	1865	2283	2774	1529	1196	865	664	635	610	643	553
Electric fans	'000 Nos	1059	1358	1364	1376	1480	1551	1716	730	964	350	380	480	506	515	449
Electric lamps	Mn Nos	43.5	72.1	83.3	73.9	97.8	98.8	120.1	58.2	61.3	28.9	29.3	31.2	30.7	30.4	30.9
Radio receivers	'000 Nos	282	606	761	929	1485	1746	1794	860	984	404	456	509	425	461	523
Electric cables																
(i) Aluminium conductors	'000 Tonnes	23.6	40.6	52.9	72.6	56.1	61.2	64.2	28.2	35.8	14.1	14.1	18.4	17.6	17.1	18.7
(ii) Bare copper conductors	'000 Tns	10.1	3.1	1.7	0.8	0.9	2.1	0.7	0.3	0.5	0.2	0.1	0.2	0.2	0.2	0.3

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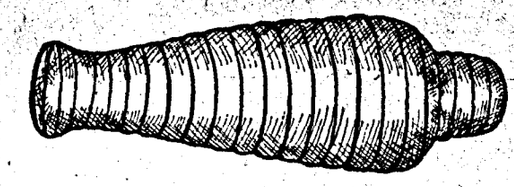
Production of Selected Industries (concluded)

Chemical and Allied Industries																
Nitrogenous fertilisers (N)	'000 Tns	98	233	308	367	543	716	830	355	408	166	189	242	233	184	224
Phosphatic fertilisers P_2O_5	'000 Tns	52	111	145	191	210	222	229	100	133	48	52	66	63	63	70
Sulphuric acid	'000 Tns	368	662	702	858	1034	1197	1155	574	539	277	297	308	277	273	267
Soda ash	'000 Tns	152	331	348	371	408	427	449	212	241	106	106	119	118	116	125
Caustic soda	'000 Tns	101	218	233	278	314	354	364	180	187	88	92	93	91	90	97
Paper and paper tubes																
(i) Automobile tyres	Mn Nos	1.44	2.31	2.43	2.47	3.41	3.62	3.79	1.82	2.01	0.86	0.96	0.97	1.00	0.92	1.09
(ii) Automobile tubes	Mn Nos	1.35	2.27	2.40	2.77	3.04	2.90	3.45	1.62	1.94	0.78	0.84	0.87	0.96	0.91	1.03
(iii) Bicycle tyres	Mn Nos	11.15	18.46	20.34	22.79	24.58	21.32	19.70	10.16	9.16	4.93	5.23	5.41	4.13	3.62	5.54
(iv) Bicycle tubes	Mn Nos	13.27	18.62	20.75	18.63	17.73	16.79	13.81	8.15	6.25	4.28	3.87	3.46	2.20	2.40	3.85
Cement	Mn Tns	8.0	10.8	11.1	11.5	12.2	13.8	14.4	6.8	7.3	3.3	3.5	3.7	3.9	3.6	3.7
Refractories	'000 Tns	567	695	730	749	630	685	743	367	407	182	185	195	181	204	203
Refined petroleum products	Mn Tns	5.8	9.4	11.9	13.8	15.4	16.6	17.0	8.3	9.3	4.2	4.1	4.4	4.3	4.5	4.8
Textile Industries																
Jute textiles	'000 Tns	1097	1302	1117	1156	998	944	958	514	540	258	261	188	256	273	267
Cotton yarn	Mg Kgs	891	907	902	926	972	862	929	487	445	242	245	231	211	217	228
Cotton cloth (total)	Mn Mtrs	6738	7440	7303	7511	7902	7753	7596	3893	3758	1922	1970	1975	1730	1859	1899
(i) Mill sector	Mn Mtrs	4649	4401	4202	4258	4297	4192	4055	2108	1987	1058	1050	994	954	985	1002
(ii) Decentralised sector	Mn Mtrs	2089	3039	3101	3253	3605	3561	3541	1784	1771	864	920	981	776	874	897
Rayon yarn††	'000 Tns	43.8	75.6	80.6	92.2	99.2	98.8	100.1	50.5	54.5	24.5	26.0	24.0	25.6	28.6	25.9
Art silk fabrics	Mn Mtrs	544†††	878	862	917	1011	863	947	461	n a	223	238	251	235	n a	n a
Woollen manufactures																
(i) Woollen/worsted yarn	Mn Kgs	13.0	17.0	16.9	16.8	19.0	18.8	19.7	9.8	10.6	4.7	5.1	5.2	4.7	5.0	5.6
(ii) Woollen/worsted fabrics (wearable)	Mn Mtrs	8.4	9.2	9.5	9.2	12.6	12.2	14.3	7.1	7.5	3.1	4.0	3.7	3.5	3.0	4.5
Food Industries																
Sugar**	'000 Tns	3029	3510	2147	2249	3558	426	3740	1181	656	1078	103	957	2151	605	51
Tea	Mn Kgs	322	376	369	387	397	401	421	286	294	107	179	112	23	110	184
Coffee	'000 Tns	54.1	62.1	71.0	72.6	66.6	64.6	71.8	32.4	51.9	24.4	8.0	4.8	34.6	34.6	17.3
Vanaspati	'000 Tns	340	401	366	423	466	477	558	255	277	134	121	147	156	141	136
Electricity Generated***	Bn KWH	16.9	33.0	36.4	39.4	47.4	51.4	44.8	27.4	29.3	13.7	13.7	14.1	14.3	14.6	14.7

* Provisional; @ Excludes output in Goa; † Includes passenger buses, trucks and tempos 3 and 4 wheelers; †† Includes viscose yarn, staple fibre and acetate yarn; ††† Relates to calendar year; ** The annual figures relate to the sugar season which was November to October upto 1966-67 and October to September thereafter; *** Relates to public utilised only.

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