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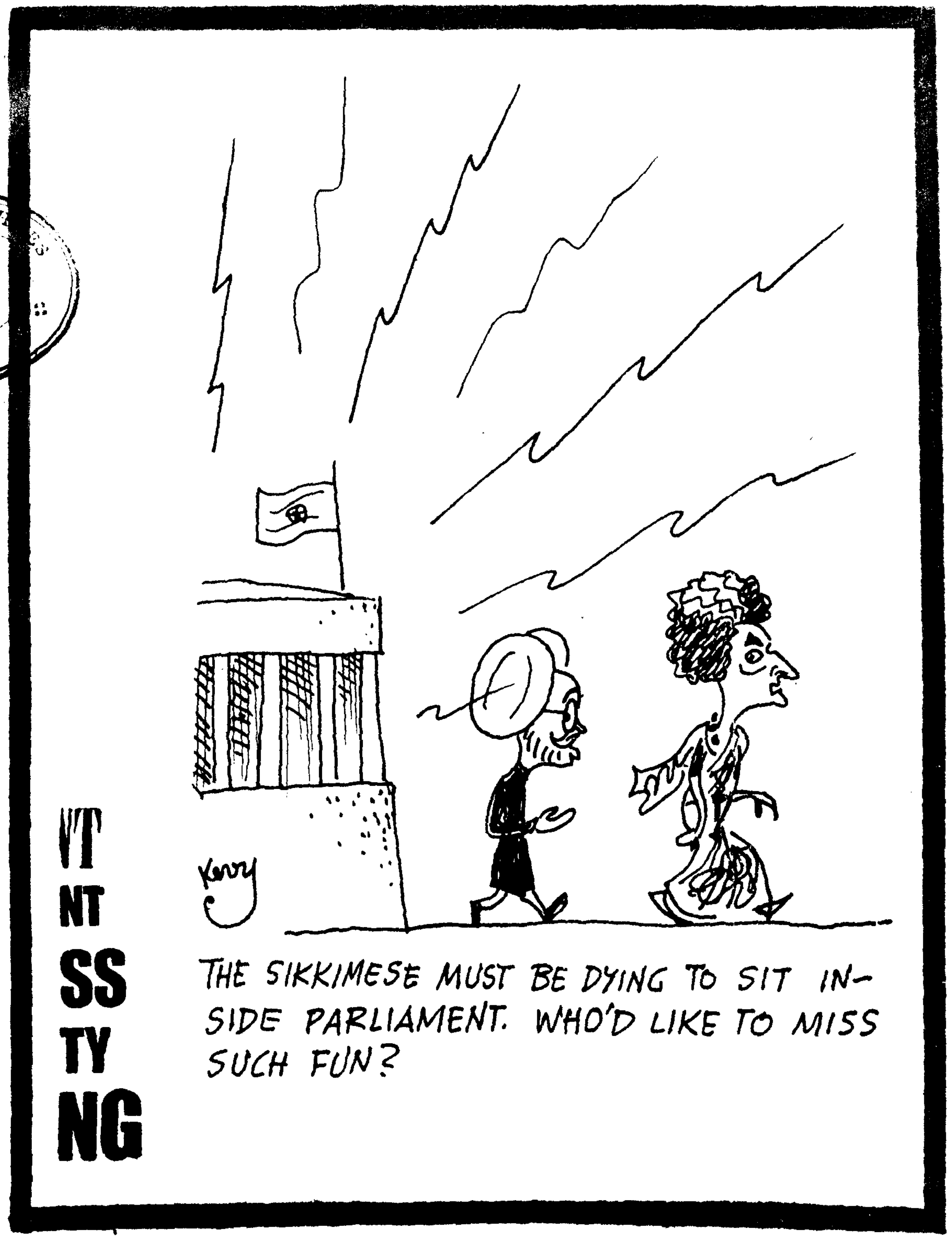

Unfair to frogs

MR K.B. LALL, our ambassador to the European Economic Community, was recently here for official consultations and he spent some three weeks in discussions with the various ministries, particularly the ministry of External Affairs and the ministry of Foreign Trade. Mr Lall returned to Brussels last week-end and before he left he claimed that he was listening for the most part during his stay in New Delhi. He has however the knack of seeming to be listening while, actually, he may be doing the talking. This need not of course be held against him because he is a man of new and bold ideas and even when he is trying to sell something, he usually has merchandise which is worth selling or indeed being bought. In his own witty way he indicated that attempting to sell ideas to New Delhi could not exactly be a preferred way of spending time for an *ex-officio* expatriate like himself visiting his home town after some interval. Mr K.B. Lall used the phrase "frog-in-the-well" to suggest the situation. But then he was clearly being hard on frogs. In these days, when frogs' legs are such a hot export item, it is a wise frog that keeps to its well. The question is whether there is this amount of wisdom in New Delhi.

In fairness to frogs we would certainly quarrel with the figure of speech Mr Lall chose, but we would agree wholeheartedly with the underlying idea. His contention that New Delhi is more disposed to be oppressed with problems and difficulties of the economic situation, international or domestic, than the possibilities and opportunities that do go with the challenges of this situation is one hundred per cent valid. As he pointed out, countries with high managerial abilities are not only not inclined to let themselves go under but are using their imagination and their expertise not simply to make the best of a bad situation but to wring the utmost advantage out of the prevailing context of international trade and economic relations in which money is abundantly available if one knows where to look for it and markets are responsive if one knows how to explore them. It is indeed sad that while our prime minister, Finance minister and even our minister, so to speak, for population (Health and Family Planning) are almost mechanically lecturing the affluent countries on sharing their wealth or resources with developing economies, the government of India itself should have been so wanting in ideas and effort where its utilization of available external resources is concerned.

For instance, whether it is the question of the normal payments facilities or the Special Drawing Rights of the International Monetary Fund, the recently evolved concept of compensatory payments for countries hit hard by adverse terms of trade or, most important of all, the oil money in the Gulf and elsewhere seeking investment world-wide, New Delhi should surely have the sense to realize that it is the early bird that catches the worm. It is true of course that, in the matter of developing trade and larger economic relations with Iran, the government of India has been acting with commendable vigour and it is to be hoped that the planned visit of the Shah to this country early next month would help to promote further initiatives as well as specific programmes of action in this field. But even here it must be recognized that to conclude a deal with Iran for large exports of cement is one thing and to ensure that these exports come out of additional domestic production, as, indeed, they should, is another. While it is true that, up to a point, India may be compelled to export even out of its scarcities, it is obvious that in the matter of materials such as cement, if additional exports are not accompanied by additional production, this country will be automatically adding to its unemployment problem.

This is perhaps why Mr Lall is so emphatic that a massive export drive which the world situation permits should be a part and parcel of a strategy of sufficient imports of vital inputs for industry and agriculture and an all-out production drive within the country itself. It is important that, since the scope for India, whether at the government level or through its business men, making large direct deals of trade or industrial collaboration with petroleum exporting countries is restricted by various factors, New

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Delhi should conceive in bold terms and execute with the utmost competence a programme of tying up Indian production as well as know-how and technical skills with major projects which business men from the United States, the various West European countries or Japan may be executing in Iran or other Persian Gulf countries as principal contractors. The industrialized countries should certainly welcome supplies of labour-intensive semi-manufactures and manufactures from India as well as skilled Indian technical personnel for the large industrial facilities they are or will be setting up in the oil-rich areas. Although it is commonly believed that a frog in a well can have only a limited vision of the outside world, frogs have this anatomical advantage that their eyes are set high on their skulls so that they can take in the view quite a bit even without turning their heads or craning their necks. In comparison, then, with frogs, whether inside wells or outside, New Delhi has a lot to make up for if it is to make good at all.

Drug scandal

THE WORST fears of some of us seem to be coming true. To the many critical shortages plaguing the people is being added a fast-aggravating scarcity of essential drugs or their formulations. In the past, when the modern pharmaceutical industry was still growing, pharmaceuticals were often priced high, especially where newly introduced drugs were involved; and there might have been occasions also when some drugs were not readily available. But, by and large, production was catching up with needs and the marketing network was also being built up fast, at least in the urban areas. For some time now, however, there has been a new and adverse trend. The supply of pharmaceutical preparations is not only not expanding sufficiently but the production of some essential drugs seems to be declining; in not a few cases, manufacture has been even suspended or stopped.

For this state of affairs three factors seem to be largely responsible. First comes the scheme of price regulation which evidently makes it attractive for pharmaceutical firms to step up production in certain lines at the expense of expanding or even maintaining production in other lines. Secondly, the canalization of imports of basic drugs through the STC seems to be creating a bottleneck for the manufacturing activities of the pharmaceutical industry. Finally there is the government's generally unhelpful attitude towards the expansion of capacity in the organized sector of the pharmaceutical industry and, in particular, by firms with substantial foreign collaboration. The imposition of restraint on dividends may be causing additional difficulties in this respect. It is therefore clear that if the government does not want to precipitate a man-made crisis in the availability of essential medicines, it will have to work out immediately a positive and practical policy for increasing production of much-needed drugs or their formulations.

Meanwhile it could be suggested that one way of bringing about an increase in the production of essential or useful pharmaceutical preparations would be to discourage the highly remunerative production of patent medicines of doubtful utility. It is a well-known fact that, through high-pressure advertising, the consumer is being inveigled by many pharmaceutical firms into spending his hard earned money on products which are often worthless. Unfortunately, neither advertising agencies nor the advertising departments of newspapers or popular periodicals seem to consider it part of their social obligation to exercise some check over the tall claims which are made for patent medicines.

In the United States, the Food and Drug Administration is reported to have begun a massive inquiry into patent drugs following a survey of the five-billion-dollar market which revealed widespread misconceptions about and overuse of laxatives and vitamin pills. Only 25 per cent of a sampling of 400 drugs were judged to be effective for the claims made. The US Federal Trade Commission, it appears, has proposed that the manufacturers of bufferin, anacin, and Bayer aspirin should spend up to $ 20 millions in corrective advertising to amend claims made in previous advertisements. It has also been reported that, in a test case, the makers of listerine mouthwash have been charged with falsely claiming that the product will help in the prevention, cure or treatment of colds.

According to *The Guardian*, when the Consumers' Association in Britain looked at the advertising of a number of leading proprietary drugs two years ago, it could pinpoint several instances of the employment of half-truths or deceptive phrases in the selling of proprietary or branded preparations. It was found, for instance, that there was no evidence that Sanatogen would do anything at all except as a placebo, although it was claimed to be able "to relieve depression, irritability and insomnia—all symptoms of nerves." Phillips tonic yeast, which claimed to make one "feel a new person, younger, fitter, full of zest" was judged to be virtually worthless to anyone not suffering from vitamin B deficiency. Phyllosan's claim that its iron ingredients, "can help you keep your youthful muscle tone and your youthful vigour" was reckoned to be without any basis except for those suffering from anaemia. The claim made for fynnon salt, that it brought relief from rheumatic pain, was also reported to be unsupported by clinical evidence.

One has only to skip through the pages of the newspapers or popular periodicals in our country to realize that outrageous claims are being made for aspirin preparations, vitamin pills and a whole host of other proprietary or patent medicines. The situation is made worse by the fact that quack remedies are being advertised with the utmost abandon by persons claiming to practise indigenous systems of medicine. There does not seem to be any agency, official or voluntary, in our country to ensure even minimum protection to the public against such wanton exploitation of the weakness of men and women to believe that health or long life could be purchased at a chemist's shop at the price of a packet of gaily coloured pills or a bottle of pleasantly flavoured liquid advertised in

hyperbolic language in some newspaper or magazine. Is seems to us that one way of ensuring that the pharmaceutical industry is firmly kept to its legitimate business of manufacturing and marketing essential drugs or formulations is to make it as difficult as possible for pharmaceutical firms to make big money the easy way by overselling the public on patent medicines or proprietary preparations for which claims are made without adequate clinical evidence. Clearly the central Health ministry as well as the Public Health departments of state governments have some responsibilities towards the public in this context.

Sugar sweetens trade

THE SUGAR industry is making history by coming to the rescue of the country in a difficult year of balance of trade, with sizeable foreign exchange earnings of some Rs 300 crores through exports in 1974-75. Such a boom in the international trade in sugar has not been witnessed at any time in the recent past and the quotation at £ 310 per tonne at the end of August affords a rupee price which is even higher than the fantastic quotation that is now prevailing in the main marketing centres in different states. It is important to remember in this connection that the rate of Rs 550 per quintal for open market sugar on August 31, 1974 was inclusive of the excise duty of Rs 108.75 per quintal on the basis of a tariff value of Rs 290 per quintal. With sales of sugar out of the free quota having been effected by many factories at even Rs 440 per quintal ex-factory exclusive of excise duty the central government has raised the tariff value for purposes of levying the ad valorem excise duty to Rs 305 per quintal. This will result in the quantum of excise duty rising to Rs 113.87 per quintal. It is expected, naturally, that open market prices will rise further if there is no increase in the quantum of release of sugar for October. Even if ex-factory sales could be effected at Rs 450 per quintal and above, exports would still be more profitable.

The government has naturally been anxious to maximise exports and secure full advantage out of the world boom in sugar by even restricting releases for internal consumption. With an acute shortage of ready supplies the State Trading Corporation has concluded large contracts for effecting shipments to west Asian countries, south-east Asia and elsewhere. In the first ten months of the current crushing season despatches for export had been effected to the extent of 328,000 tonnes and it should not be difficult to send out another 350,000 tonnes taking the total to 678,000 tonnes for the whole financial year. In that event, it will be possible even to earn foreign exchange of Rs 325 crores enabling the industry to top the list of exports. With the prospect of an increase in the value of exports by Rs 275 crores as compared to 1973-74 sugar will be financing nearly 50 per cent of the increase in the import bill in respect of crude oil and petroleum products. If it were not for the compulsion to import sizeable quantities of foodgrains, the challenge posed by higher oil and allied imports could have been easily met.

In view of the likelihood of the world demand for sugar remaining at a high level, and the prospect of satisfactory prices being realised in 1975-76 as well, the sugar industry has assumed new importance and every effort has to be made to boost production substantially in the 1974-75 crushing season. In the current season ending with September the output of sugar is estimated at 4,000,000 tonnes, actual production in the first ten months ending July being 3,905,000 tonnes against 3,803,000 tonnes, in the same period in 1972-73. With many mills in the southern region making arrangements to crush large quantities of cane in September and increased capability of mills in Karnataka, it can be safely expected that the 4,000,000-tonne mark will be comfortably surpassed in 1973-74. This level of production is the next best after the all-time record of 4,261,000 tonnes established in 1969-70. There is nevertheless a complaint about a shortfall of 500,000 tonnes over the target of 4.5 million tonnes fixed earlier this year. It has not been possible to achieve this target because of drought conditions in Maharashtra and the standing crop being affected in UP, Bihar and Haryana on account of pyrilla disease. It is now expected that UP and Bihar will be producing only about 1,525,000 tonnes, Maharashtra 1,000,000 tonnes and the three southern states 1,073,000 tonnes with Tamil Nadu alone contributing as much as 463,000 tonnes. It is significant to note that the increase in the share of Tamil Nadu of 133,000 tonnes is more than the increase in all-India output. The shortfall in production of UP, Bihar and Maharashtra has also been

Eastern Economist 30 Years Ago

September 15, 1944

There appear only two exceptions to the general trend of the larger towns to grow larger in proportion between 1931 and 1941, mainly in categories 5,000 to 10,000 and those over a million. The first exception is easily explained by the fact that a large proportion of these consist of really rural areas that have tipped over from the below 5,000 group to the next one with a slight increase in their population during the decade. The growth of the two largest towns was held in check for the want of land to build houses, and most of the increase in the category occurred in Calcutta, which had a greater freedom to spread out than the island city of Bombay.

The urbanisation during the decade is mostly attributable to industrial development; Ahmedabad, Cawnpore and Lahore, that are in the "400,000 to million" group, show phenomenal increase in population owing to new industries. Karachi, Nagpur, Bangalore, Jamshedpur and such industrial centres show marked increase in the group 100,000 to 400,000, while the relative stagnation in non-industrial towns like Benares and Patna marks a contrast.

made good by Karnataka and Andhra Pradesh. But for the adverse developments in some producing areas it should not have been difficult to beat the record of 1969-70.

The utilisation of sizeable quantities for export has necessarily been reflected in reduced releases for internal consumption. Even so, the internal offtake will be little over 3.5 million tonnes for the current season on the assumption that the special release for the festival season if at all will be in October. With exports accounting for nearly 500,000 tonnes the whole of the 1973-74 output will be absorbed and the carryover of 843,000 tonnes from the last season may remain in tact at the end of September. With this fairly comfortable position any difficulty that may be experienced in October and November can be overcome and shipments maintained at the rate of 75,000 tonnes per month against outstanding contracts.

The authorities are reported to be thinking of effecting exports of 100,000 tonnes out of the quota for free sale and giving an opportunity to the industry to get a portion of the profits now being realised by them by accepting tenders. Even then, the government will be having a sizeable margin between the export price and the rate at which tenders will be accepted. There is naturally a feeling that the government has made huge profits on exports at the expense of the industry and it should have been permitted to effect direct sales to overseas consumers, for at least 50 per cent of total exports or get the full benefit out of export sales effected through the State Trading Corporation on a stipulated basis.

The central exchequer will certainly be having a windfall profit of Rs 150-175 crores on sugar exports though it has not been disclosed at any stage by the Finance ministry how this profit that will accrue to the exchequer will be utilised. Presumably some adjustments in this regard will have to be made between the State Trading Corporation and the ministry of Agriculture. In any case the fact cannot be disputed that central revenues will benefit considerably from this source. While this advantage will be greatly welcomed at a time when the centre's resources position is severely strained and the foreign exchange earning will be very helpful in financing to a significant extent the additional cost of imports, what is more important is how successful arrangements will be completed for boosting production to 4.5 million tonnes in 1974-75. The four tropical states can be depended upon to produce even 2.25 million tonnes as many units in Tamil Nadu will be utilising fully their expanded facilities while two new units in Karnataka will be in full operation. It is also hoped that Maharashtra will be able to regain the lost ground. The producing regions other than UP and Bihar may provide another 400,000 tonnes. This will leave a share of 1.85 million tonnes for UP and Bihar which, while representing an increase of 300,000 tonnes over 1973-74 will still be less by over 100,000 tonnes when compared to 1969-70. This will indeed be a difficult task for the two main producing states in north India.

It is however felt that the challenge can be met if the government takes an early decision in regard to the fixation of minimum price for cane and announces also a more liberal scheme for the grant of rebate in excise duty in respect of excess production. There has necessarily to be an increase in the minimum price for sugar-cane and therefore in levy prices for sugar as the open market prices of competing crops such as wheat and rice have risen sharply in recent months. There has also been a big rise in the cost of cane cultivation because of costlier inputs. The government stands to gain by according liberal treatment to this vital industry in the present context. The states too should be prepared to waive the cess or purchase tax on cane during summer months. If a really helpful policy is not adopted there is every danger of a diversion of area under cane to other crops which may have a prejudicial effect on the operations of the industry in 1975-76. Even in the current season diversion of cane for conversion into gur and khandsari can be prevented only if sugar mills can compete effectively with other producers for available supplies. It should not also be overlooked that internal consumption has been curtailed and exports of 600,000 tonnes can again be repeated in 1975-76 only if there is internal availability of at least 3.9 million tonnes. There is therefore no time to be lost in arriving at sensible decisions.

Cost of foreign capital

At a recent press conference in the capital, Mr R. S. Bhatt, chairman of the Indian Investment Centre (IIC), stated that a cost benefit study of foreign investments and technical collaborations was proposed to be undertaken by the Centre. It was rightly expected by him that such a study would go a long way in providing useful data to policy-makers in taking vital decisions both on foreign investments and technical collaborations. Interest in this subject had been evinced in the past by a number of research institutes and some work on it had already been completed. The latest contribution was from the Economic Department of the Reserve Bank of India (RBI) which in the Bulletin for June 1974 had set out a survey of foreign financial and technical collaboration in industry for the period 1964 to 1970. This analysis was in continuation of the first RBI survey covering the period from April 1960 to March 1964, and published in 1968.

Private foreign investments were made either through branches of foreign companies (controlled by boards of directors appointed by the foreign interests) or through subsidiaries which were incorporated in this country and had majorit control by foreign companies. There we some companies in this country wherei foreign interests had a majority control. According to data collected by the RBI through quarterly surveys of foreign investments, branches of foreign companies held nearly one-third of the direct foreign investments (Rs 224 crores) while the subsidiaries held the balance (Rs 511 crores). In addition there were technical collaborations for which technical fees and royalties were paid.

The latest RBI survey covered 8 companies of which 197 were subsidiari 433 minority participation and 247 pu technical collaboration companies. Th number of collaboration agreements was 1098 out of which 167 related to subsidiaries, 489 to minority companies and 442 to pure technical collaborations. Included in the survey were 41 government companies which had 163 collaboration agreements.

Great concern has very often been exhibited in this country regarding the impact of collaboration agreements on our balance of payments, especially the outflow of funds through dividend and technical collaboration remittances and payments to foreign technicians in foreign currencies. The RBI survey showed that dividend remittances claimed a high proportion of the total payments (see Table I) though the total outflow was not unduly large. Between 1960 and 1964, the dividend remittances averaged Rs 15.00 crores a year; they rose to Rs 24.38 crores a year between 1964 and 1970. The technical collaboration fees and payments to foreign technicians in foreign currencies rose from Rs 11.55 crores a year in the period 1960-64 to Rs 16.21 crores a year between 1964 and 1970. In the decade under review, the total outflow in the form of dividends, technical fees and salaries came to Rs 143.48 crores.

It would be wrong to measure the impact of foreign collaboration on our economy in terms of remittances alone. Encouragingly, a more meaningful exercise was attempted by the RBI by drawing up a balance sheet of net outflow of foreign exchange for the period 1964-74. It covered imports, exports, remittances of royalty, dividends, interest charges and technical fees, payments of foreign technicians in foreign currencies, foreign loan receipts, repayment of foreign loans and the net inflow of foreign equity for private sector companies (including purely technical collaborations), subsidiaries and minority companies (see Table II).

Chiefly because of imports and dividend remittances, the net effect was a significant outflow of funds in the six-year period ending in 1969-70 i.e. Rs 891 crores for private sector companies which included Rs 569 crores for subsidiaries and Rs 115 crores for minority companies. And the reason for this was not far to seek. As stated in the RBI survey, "these

Table I

Remittances by Private Sector and Government Companies with Foreign Collaboration*

(Rs lakhs)

Year.	Dividend remittances	Technical collaboration remittances	Payments to foreign technicians in foreign currencies	Total technical remittances (2+3)	4 as % of 1
	(1)	(2)	(3)	(4)	(5)
1960-61	11,38	9,03	3,07	12,10	106.3
1961-62	14,14	8,83	2,13	10,96	77.5
1962-63	18,35	8,09	2,38	10,47	57.1
1963-64	16,11	9,50	3,18	12,68	78.7
Total 4 years	59,98	35,45	10,76	46,21	77 0
Average for 1960-64	15,00	8,86	2,69	11,55	77.0
1964-65	20,33	7,69	1,56	9,25	45.5
1965-66	19,50	10,16	1,95	12,11	62.1
1966-67	22,66	14,24	2,86	17,10	75.5
1967-68	26,58	13,33	3,51	16,84	63.4
1968-69	26,87	16,22	3,61	19,83	73.8
1969-70	30,32	18,31	3,83	22,14	73.0
Total 6 years	1,46,26	79,95	17,32	97,27	66.5
Average for 1964-70	24,38	13,33	2,89	16,21	66.5

*These data differ from data on similar items made available for the balance of payments compilations owing to differences in the coverage of the number and type of companies included and in the types of remittances, The figures given here relate to payments made by the companies included in the Survey to the other (collaborating) companies but exclude remittances to non-resident individuals; in the balance of payments compilation both types of remittances are covered. Secondly, for government sector, only corporate public sector enterprices are included in the Survey and not the departmental undertakings remittances of which are also included in the balance of payments data. Thirdly, balance of payments data also include certain technical remittances which do not arise from technical collaboration agreements as such but are in the nature of professional fees paid for various types of services rendered.

Table II

Net Inflow/Outflow of Foreign Exchange for Selected Items (6-Year Period)

(Rs crores)

	Private sector companies*	Subsidiaries	Minority companies
Net position of selected items†	— 891	—569	—115
of which			
(i) Imports	—1660	—749	—504
(ii) Exports	+ 729	+248	+332
(iii) Dividend remittances	— 145	—116	— 29
(iv) Loan receipts	+ 260	+ 38	+181
(v) Repayment of loans	— 128	— 19	— 78
(vi) Interest payments	— 57	— 6	— 43
(vii) Net inflow of equity capital	+ 110	+ 62	+ 48

*Inclusive of PTC companies not shown here separately.

† These items are imports, exports, remittances of royalty, dividends, interest charges and technicel fees, payments to foreign technicians in foreign currencies, foreign loan receipts, repayments of foreign loans and the net inflow of foreign equity.

companies are engaged mostly in production which is oriented more towards import substitution than export promotion." As a matter of fact, the collaborations entered into in the fifties and sixties were designed to reduce the burden on foreign reserves by manufacturing those products in the country which used to be imported earlier. The accent on production inflated the bill of imports both for machinery and raw materials. Enough surpluses in output were not generated to allow for increased export earnings.

Also, the contribution of foreign collaboration companies would need to be assessed in several other ways including production, employment opportunities and import substitution leading to reduced burden on the balance of payments. Then there were intangible assets such as the import of technology. It would be impossible to evaluate these assests in money terms as they were in the form of "stored information, personnel skills and corporate knowledge and skills,"

It is worth recalling the conditions under which the assistance of foreign companies was sought. Back in 1953, the late T. T. Krishnamachari, then central minister for Commerce and Industry, had said in the Lok Sabha: "The wheels of industry, no matter who owns them, must be kept moving. Our own capital resources are very limited and although our preference is in favour of Indian capital, we must be prepared to use foreign capital in developing industrial production". Even at that time, a demand was made by leftist elements in the Lok Sabha that the remittance abroad of dividends should be stopped. Krishnamachari, however, retorted that "if we were to stop the remittance of dividends, then we might as well be driven to sequestrate the payments of dividends to Indian shareholders also".

Notwithstanding the gain of tangible and intangible assets from foreign collaborations (both financial and technical) foreign firms had been subjected to severe criticisim especially because the burden on the balance of payments through remittances started increasing year after year. The manufactureres of consumer goods for which no sophisticated technical know-how was necessary and trading firms came under a heavy barrage of fault-finding. Consequently, the Foreign Exchange Regulation Act, 1973, was passed primarily to supervise the activities of foreign firms and to make them dilute the share of foreign equity. The branches of foreign companies, subsidiaries and the minority companies (foreign equity more than 40 per cent) were required to apply to the RBI up to the end of August 1974 for permission to continue their activities in this country. Surely, it would take the RBI a few months to scrutinise all the applications. In the central ministry of Finance, a special committee had been set up for this purpose. In the meantime, foreign companies were slowly taking steps so as to reduce the share of foreign capital by extending the capital base. The review of their cases would not scare them away as the government's policy was still in favour of attracting private foreign capital and technical know-how in highly technical areas. The number of collaboration agreements entered into in the first quarter of 1974 at 113 was a sure indicator of the fact that foreign companies were keen to enter this market in regard to the manufacture of sophisticated equipment and were not in any way hampered in this effort by the provisions of the Foreign Exchange Regulation Act.

This was also the view of Mr R.S. Bhatt who stated at the press conference, mentioned above, that the climate for private foreign investment in this country was not unfavourable. He referred to the expeditious disposal of licence applications by official agencies and the fairly reasonable guidelines under the Foreign Exchange Regulation Act which, in his view, should dispel any misgivings in the minds of overseas investors.

FROM THE CAPITAL'S CORRIDORS

V. Balasubramanian

When Absence Counts • Too Many Barkises • Tempting Triangle • Sezhiyan Scores a Bull's Eye

AT THE time of writing, Lok Sabha has just debated (on the last day of its current session) an opposition motion demanding a parliamentary probe into the import licence issue in which the names of 21 Congress members of the House had figured. A similar motion, however, is to come before Rajya Sabha before it adjourns *sine die* later his week. I am therefore deferring comment on the subject to the next issue of this journal.

PM's absence

Meanwhile I would like to refer to the fact that the prime minister did not find it possible to be present in the House when the Lok Sabha debated the motion on September 9. She had however written to the Speaker that a prior public engagement, taking her away from New Delhi, would come in the way of her being present during the debate on the relevant date. There was general appreciation among members of parliament that since this session had been extended unexpectedly, it was quite natural that appointments made for the prime minister, perhaps weeks in advance, were sufficient explanation for her not being able to be present in the House even when such a controversial issue of high public importance as this import licence affair was being debated.

Nevertheless, there were a few members of parliament who were clearly disposed to be critical of Mrs Gandhi's absence from the House during this debate. Their grievance cannot perhaps be dismissed as unreasonable. After all, on the day in question, the programme which had taken her to Madras had only required of her that she should participate in two public functions, one of which was the inauguration of the silver jubilee celebrations of Bal Mandir (a children's home) in that city and the other the convocation at the Indian Institute of Technology at Guindy in the suburbs. Surely it could have been easily arranged that her speeches at these two functions were delivered *in absentia*. Mrs Gandhi no doubt utilized the day to the full by addressing an assembly of her party workers and also a large public meeting. Nevertheless, since her Madras programme had been fixed for two days, the 9th and the 10th, she would still have been able to devote one day for mending her party's political fences in Tamil Nadu even if she had attended the Lok Sabha debate on the 9th and left for Madras on the 10th. In the circumstances, some members of Parliament cannot be blamed if they feel that, having agreed to this debate on the licence issue against her wishes, the prime minister was obviously not over-keen on re-arranging her Madras programme to make it possible for her to be present in the Lok Sabha on September 9.

brisk politicking

The Indian Institute of Technology is no doubt an esteemable institution. Equally clearly, the *Bal Mandir* is a worthy cause. All the same, the preoccupations of the prime minister's programme in Madras could hardly have been mainly educational or sociological. Mrs Gandhi's visit to Madras has been timed to coincide with some very brisk politicking among parties in Tamil Nadu. The DMK leader, Mr Karunanidhi, had the fright of his life recently when soaring rice prices prompted mass anger with his government. He realized readily enough that his and possibly his party's tenure in office was suddenly in mortal danger. Defections to the ADMK have been following a "stop-go" course, but Mr Karunanidhi knows well enough that costly rice could mean less 'stop' and more 'go'.

winning friends

In an attempt to shore up his party's electoral appeal, the chief minister has restored prohibition and proposed to ban horse racing. These measures are supposed to be useful in influencing women and winning friends among the female of the species, especially across the wide ranges of the middle, the lower middle and the poorer sections of the community. Some observers have interpreted these potential vote-winning devices as an indication of the chief minister's plans for holding snap election. The current state of the opposition parties in Tamil Nadu may well tempt the ruling DMK and its leader to do precisely this. Although the ADMK does have a fairly broad mass base—which is also the most effective, certainly, so far as the opposition groups are concerned—it seems to have concluded that even it cannot go it alone against the DMK with sufficient hope of success. It follows that other opposition parties must be feeling much more diffident about being on their own.

The following which Mr Kamaraj inspires is no doubt intensely loyal, but it is not correspondingly extensive. His leadership disposes of more active workers than committed followers and more committed followers than potential vote-givers. Mrs Gandhi's Congress in Tamil Nadu no doubt has a formidable asset in her demagogic appeal which is perhaps stronger than either Mr Karunanidhi's or Mr Ramachandran's, but is also its only asset. There is no good enough local organizer of victory for her in Tamil Nadu. As for the left parties, the CPM had long ago decided to hitch its wagon to the ADMK star, while the CPI has chosen to tie itself to the apron strings of Mrs Gandhi's party. Most of the various fringe groups in Tamil Nadu politics, having profitably clambered up the DMK band wagon, presumably see no reason yet to jump off. As for Swatantra, it has been reduced to a rump of bits and pieces. In the circumstances, although Mrs Gandhi may pretend to turn up her nose on merger propositions in Tamil Nadu, her present Madras visit is definitely in the nature of a quest for allies wherever she could find them.

prospective trio

Luckily for her, there are enough willing Barkises around. She can have a choice, for instance, of either Mr Kamaraj and his faithfuls or Mr M.G. Ramachandran and his cohorts. With Mr Kamaraj's collaboration her party could offer considerable but by no means formidable opposition to Mr Karunanidhi's DMK. Partnering ADMK, it could put up a formidable but not by any means a necessarily winning fight against the ruling party in Tamil Nadu. If however the prime minister could summon enough political skills to bring together under one umbrella the ADMK, Mr Kamaraj's party and her own, it may not even be necessary for these parties to wait for the next general election to unseat Mr Karunanidhi or split his party wide open. The problem here would be to persuade Mr Kamaraj to accept Mr M.G. Ramachandran as a political bedfellow, however strange. So far as Mrs Gandhi is concerned, there would be no need for her to swallow her pride. If she is allergic to the word 'merger', it should not be difficult to invent a more comforting phraseology. If Sikkim could send "associate" members to Indian parliament, suitable political label could certainly be found for an Indira-Kamaraj-MGR *menage et trois*.

I should not be reckoning without my host. While none of the opposition parties in Tamil Nadu can successfully go it alone, the DMK too is in no position to make a fetish of self-reliance. Having benefited lavishly from a gentlemen's agreement, so to speak, with Mrs Indira Gandhi at the time of the 1971 mid-term general elections, Mr Karunanidhi has been giving consistent proof of his anxiety to preserve this productive, alliance. Especially in respect of his party's attitudes and activities in parliament, the DMK leader has been anxious to keep on the right side of Mrs Gandhi and her party. It is therefore more than likely that he continues to be hopeful of achieving some kind of amity with the prime minister and her party in his party's bid to retain power in Tamil Nadu. There have been suggestions that his party may not be fully in agreement with him in his efforts to cultivate Mrs Gandhi's political friendship conspicuously. There has been quite a good deal of speculation about this in political circles both in Madras and New Delhi and the fact that the DMK group in the Lok Sabha was not present at the time of the passing of the Sikkim Bill, despite Mr Karunanidhi's directive to it to record its votes in favour of the measure, h asnaturally lent colour to the supposition that the DMK leadership is not of one mind over the issue of the party's relations with Mrs Gandhi's Congress.

party schism

One hears several things said in this connection. There is the explanation, for instance, that some DMK stalwarts feel that their parliamentary group's support to Mrs Gandhi's government should be on the basis of the individual merits of particular occasions or cases so that neither the prime minister may be encouraged to take DMK for granted nor the DMK have its identity blurred where the public in Tamil Nadu is concerned. Another and a rather sinister inference is that Mr Karunanidhi's personal enthusiasm for the 36th constitutional amendment is related to the possibilities that he sees in Sikkim's associate status for his own propagandist plans for so-called autonomy for Tamil Nadu — an enthusiasm which, it is suggested, some of his colleagues are unable to share because they believe that the DMK's political prospects in their state may be harmed rather than helped by its persevering in appeals to separatist sentiments.

Talking of the DMK group in parliament, I am tempted to emphasize the fact that, eventful and even sensational as this session has been, its true hero may not be Mr Madhu Limaye despite his somewhat melodramatic performance on the Speaker's dais on September 5, but the quite-spoken and clear-headed Mr Era Sezhiyan who leads the DMK group in the Lok Sabha. On August 31, he deftly caught the treasury benches on the wrong foot. When the House took up the voting on grants under the Rs 350-crore Supplementary Budget and on the appropriation bill covering them, Mr Sezhiyan challenged three grants which, he said, could not be included in the supplementary demands for grants in the current year since they related to "excess expenditure" which the government had incurred on account of decrees and awards relating to the previous financial year.

casual attitude

Both he and Mr Madhu Limaye [illegible] ample opportunities to pursue this p[illegible] his on September 2 when the supplemen[illegible] the budget of the central government [illegible] those of the Gujarat and Pondicherry governments came up for consideration in the Lok Sabha. It was pointed out that, apart from the central demands for grants, the Gujarat and Pondicherry demands also included items of excess expenditure. The situation was sorted out in the light of a ruling by the Speaker that the demands for grants which were being objected to should be taken out and the government should return to the House with separate demands for grants covering the excess expenditure.

The importance of Mr Sezhiyan's intervention lies in the fact that the Finance ministry seems to be falling into the habit of adopting too casual an attitude towards financial legislation. Whether the excess demands were attempted to be passed off as supplementary demands out of ignorance, carelessness or by an act of deliberate decision was, unfortunately, not bro ght out in the proceedings of the House and it may therefore be said that, while Mr Sezhiyan's admirable vigilance was rewarded to some extent, he did not score the full triumph he deserved. Meanwhile the tax payer must live with the nagging thought that, although the government stubbornly claims that it is attempting all the time to discipline expenditure, in reality it seems to be building up habits of thinking and functioning even in the areas of important financial legislation which must put a premium on laxity in the handling of public funds.

Marginal farmers' problems and prospects

A. R. Patel

DESPITE THE fact that the marginal farmers and landless agricultural labourers occupy a predominant place in the agricultural map of our country, no planned efforts were made until very recently to chalk out schematic programmes which could enable this class of farmers to attain a reasonable standard of living. The magnitude of this multi-dimensional problem and its adverse efforts on the country's economic growth can be realised from the fact that of the 49 million holdings in our country, a little over 40 per cent are less than one hectare (2.5 acres) in size. The farmer households with less than one hectare form 34.5 per cent of the total number of households but their share in cultivated area is only 6.8 per cent.

sub-human standards

The proportion of farmers of this category of holdings in the country is the largest in Kerala (80.5 per cent) followed by Bihar, Tamil Nadu and West Bengal where 50 per cent of the farmers hold land below one hectare. The other states where their proportion is reported to be significant are Jammu & Kashmir, Uttar Pradesh, Orissa, Andhra Pradesh and Assam. To this neglected segment of the economy is again added the vast numbers of landless agricultural labourers. It is estimated that over 34 per cent of our people eke out their existence at sub-human level with a per capita expenditure of less than Rs 15 per mensem in rural areas.

Appreciable growth has been witnessed in several parts of the country as a result of the evolution and adoption of high yielding and hybrid varieties of various crops. Benefits of this growth have, however, been visible mostly in areas with assured rainfall and irrigation and a few pockets in dry farming areas. But this has not touched either marginal farmers or agricultural labourers. Consequently it has led to inequalities amongst the various economic groups in the rural areas. Marginal farmers suffer from low productivity, low income, under-employment and even unemployment for long periods over the year.

While the handicaps of such farmers differ from area to area, the major disadvantages they suffer from are fragmentation of holdings, lack of integration of credit with other services and supplies, unsatisfactory arrangement of marketing and storage; and insecurity of tenure.

The need to improve the economic and social conditions of the marginal farmers and landless agricultural labourers in our country has, therefore, in recent years assumed significant importance and attracted the attention of the government, following the recommendations of the All-India Rural Credit Review Committee, the Nariman Committee and the National Commission on Agriculture. As a result of these recommendations, some of the progressive measures initiated by the government are given below:

(i) Special programme for marginal farmers and agricultural labourers, the MF & AL Development Agency.

(ii) Assignment of lead bank districts to each of the nationalised commercial banks.

(iii) Concept of farmers' service co-operative societies.

It is necessary to analyse the nature and scope of the schemes specially tailored to benefit marginal farmers and agricultural labourers with reference to their technical feasibility and economic viability under the present-day technological development. Also, when certain specific type of constraints jeopardise the implementation of these schemes, an effective action plan and the role of special agencies that have been created for the purpose need to be crystallised.

An indepth study reveals that the Indian sub-continent represents vast, varied and versatile areas of agricultural development which can, with the aid of modern scientific technology and institutional credit, be exploited to the maximum possible advantage to our country. A few of such potential areas of development are outlined below:

(i) There are areas which have a good combination of soil and climate to suit the cultivation of a variety of crops including plantation crops.

(ii) There are areas scattered all over the country which are climatically better suited to practise subsidiary occupations such as, poultry farming, dairy farming, sheep and goat rearing, pig rearing, etc.

(iii) There are several seasonal/perennial ponds in the country which can better be exploited for inland fishing.

Recent researches on experimental plots and subsequent national demonstrations on cultivators' fields have shown that even marginal farmers may be able to secure good yields of crops and consequently good net return from their limited holdings which fall under the command areas of tube-well irrigation or river valley projects if they raise cash crop such as: (i) sugarcane in the gate area of sugar factories in such states as Bihar, Uttar Pradesh, Maharashtra, Gujarat, Tamil Nadu, Punjab, Karnataka and Andhra Pradesh; (ii) tobacco where tobacco curing barns and allied processing facilities are available in the states like Andhra Pradesh, Gujarat, West Bengal, Tamil Nadu and Karnataka; (iii) cotton where cotton ginning and pressing factories are functioning such as in Gujarat, Maharashtra, Karnataka, Andhra Pradesh, Madhya Pradesh, Tamil Nadu and Punjab; (iv) potato where organised facilities of cold storage are available as in Uttar Pradesh, Bihar, Punjab, Haryana, Himachal Pradesh, Maharashtra and Gujarat; (v) fruit and vegetable crops where fruit processing units are functioning as well as where there is feasibility of assured marketing in the nearby urban areas; and (vi) production of hybrid and high yielding seeds of crops where there is potential demand for this type of seed to replace indigenous seed.

Figures of cost of cultivation and gross income per hectare reported in the table below indicate that net return would accrue to the farmers to the extent of Rs 1,060 to Rs 7,500 per hectare if the essential ingredients of crop production are made available to them in time.

Economic Analysis of Different Crops

Name of the crop	Cost per hectare in Rs	Gross income per hectare in Rs	Net return per hectare in Rs
(1) Paddy IR-8	2,150	3,500	1,350
(2) High yielding dwarf wheat	1,700	4,420	2,720
(3) Hybrid and composite jowar	1,430	2,490	1,060
(4) Hybrid and composite maize	2,080	3,350	1,270
(5) Hybrid bajri	1,490	2,850	1,360
(6) Potato kufri	5,000	12,500	7,500
(7) Cotton 320-F	1,730	2,920	1,190
(8) Sugarcane	3,430	5,940	2,510

Similarly, recent researches in (i) multiple cropping system with two, three and even four crops per unit area; (ii) raising of three crops under limited water supply; (iii) cultivation of three to four vegetable crops; and (iv) dry land agriculture have added new vistas to increasing agricultural productivity per unit time per unit area and thereby have enabled the farmers to secure net return of a high order which can be confirmed from the following facts:

(i) Results of experiments conducted under multiple cropping indicated that net return per hectare accrued was Rs 5,415 in the case of double cropping pattern (maize-wheat); Rs 5,760 (mung-arhar-wheat) to Rs 6,394 (mung-maize-wheat) with three crops and Rs 8,447 (mung-maize-turnip-wheat) to Rs 10,961 (mung-maize-potato-wheat) under quadruple cropping system.

(ii) Results of experiments with farming under limited water supply revealed that raising of crops such as maize-peas-mung gave a net return of Rs 5,800 per hectare and that of arhar-wheat-mung resulted into a net return of Rs 5,332 per hectare.

(iii) Results of experiments under dry land farming revealed that a net return of Rs 824 and Rs 803 per hectare was obtained with bajri HB-5 and jowar respectively; while it was Rs 1,625 and Rs 2,443 per hectare respectively when arhar AS-5 and castor Aruna were sown.

(iv) Results of cultivation of vegetables indicated that net return varied from Rs 8,509 to Rs 11,640 per hectare.

(v) Results of national demonstrations organised on farmers' fields also revealed that net return varied from Rs 1,338 to Rs 2,355 per hectare when only one crop was raised; while it was between Rs 4,035 and Rs 4,940 per hactare under two crops. This net return was found to further increase to between Rs 5,019 and Rs 5,359 per hectare when three crops were raised per unit area.

The yield of the crop is, however, the net result of interacting effects of complex forces of crop production such as productivity-cum-fertility ingradient of soil, inputs and variability of climate and season. In short, the ability of marginal farmers to produce an optimum level of crops is, amongst other factors, governed by physical and human factors as described below:

physical factors

(i) *Optimum use of land*: Time and space dimension concept in the productivity of agriculture has added a new chapter to the agricultural production technology giving net return of the order of Rs 10,000 to Rs 11,000 per hectare per annum. However, it depends upon how efficiently a farmer manages his scarce resources of land and water to prevent soil erosion, maintain its productivity and enhance its fertility.

(ii) *Seed*: Seed is considered to be the potential source of crop production, which contributes 20 to 50 per cent increase in yield. However production depends upon the selection of seed, availability of genetically pure seed, quantity of seed used, time of sowing, method of sowing, etc.

(iii) *Fertilizer*: Fertilizers replenish the soil with the required nutrients lost due to intensive cropping and the use of balanced fertilizers raises the level of fertility of the soil. All soils and all crops, however, do not require a uniform dose of fertilizers. It is, thus, necessary to diagnose the soil in respect to the enrichment, availability and deficiency of the nutrients with reference to the proposed cropping pattern to be adopted. This will be known only by testing soil, where such testing laboratories are established, to give complete prescription of the type and quantity of fertilizers to be used as well as time and method of application. Along with chemical fertilizers, use of organic manure is also essential to maintain productivity of the soil.

(iv) *Plant protection*: High yielding varieties and hybrid crops have often been found to be more susceptible to the attack of pests and diseases. If adequate and timely measures of crop protection are not taken, the yield of the crop is reduced drastically.

(v) *Irrigation*: Irrigation water wherever available, has to be used very judiciously so as to obtain maximum yield lest it should create salinity/alkalinity and related problems of soil hazards.

(vi) *Storage, processing and marketing facilities*: Increase in the harvest of the crops due to adoption of technology has little meaning if proper storage, processing and marketing arrangements are not provided to this class of farmers. Marginal farmers being poor do not have storage facilities and have to compulsorily sell their farm produce immediately after threshing and cleaning from the threshing yard itself which fetches a lower price. Under these circumstances, a reasonable gestation period before marketing has to be allowed to fetch competitive and fair prices. This obviously necessitates development of adequate storage facilities and organised market yards.

human factors

The transformation of production technology from research plots to production plots depends upon such human factors as farmers' socio-economic status, level of education, age, adoption status, the stage in which he is in the adoption process, existing level of knowledge about innovation, his aptitude, his proneness to change, value orientation, aspirations for future attainments, his length of farming career and many other pre-conditions.

Demonstration: Results obtained from

the experimental plots which have been analysed by appropriate method of statistical analysis and only those results which are statistically significant at 5 per cent or 1 per cent level of confidence for a period of three years are demonstrated on a limited scale to the cultivators before they are released for adoption by farmers. However, it requires great care and vigilance to instil a greater degree of confidence in this class of farmers that they will not run into any risk by adopting these proven package of practices for which adequate number of demonstrations (as many times as possible) on wider scale should be held on their fields taking into consideration the human factors so as to have a rational assessment of the benefits of package of practices. Demonstrations may also be required to be held under different agro-climatic zones so as to prove their ultimate utility based on critical analyses under farmers' field conditions. This may be time-consuming and expensive initially but will ultimately have favourable effects on the adoption of new technology by marginal farmers.

package of practices

Education: Adoption of the package of practices which have been proved to be remunerative to this class of farmers based on demonstrations held on their own fields also requires a suitable strategy of educating them in respect of methods of cultivation of high yielding varieties. Education is basic to the use and adoption of modern technology which changes swiftly and has impact on the ultimate diffusion-process of adoption. Certain progressive states have recently made a beginning of educating marginal farmers at agricultural research institutes or centres by providing hostel facilities.

Technical guidance: Marginal farmers despite their having secured demonstrations and despite being educated in the methods of the application of package of practices also need constant technical guidance as to what should be done at what stage of growth.

Availability of inputs: Affluent farmers are well aware of the sources of availability of inputs as well as the methods of obtaining them. However, this class of farmers must be provided with necessary inputs at the right time and in adequate quantity. Quality of inputs so supplied should be strictly ensured otherwise there is a possibility of getting much reduced yields. Seed should be examined in laboratories at various stages of multiplication, processing and distribution so far as its inherent production potential is concerned. Recent reports on the deterioration of genetic potential of seed are quite alarming. Similarly, short supply of fertilizers has induced black marketing with a high degree of adulteration which has far-reaching effects on soil productivity.

subsidiary occupations

Poultry farming; Poultry is considered to be one of the best sources of animal protein. Per capita availability in India of poultry meat (50 grams) and egg (12 eggs) is estimated to be the lowest in the world. A scheme for establishing a national egg marketing grid based on cooperative structure is proposed to be implemented in the fifth Plan. Thus with the increased demand for eggs and meat in urban areas coupled with scientific developments (breeding, feeding and management) in poultry farming, the scope of establishing poultry units in our country needs to be explored and exploited wherever climate is congenial. With a capital investment of Rs 3,100, a net return to marginal farmers and agricultural labourers would be of the order of Rs 1665 per annum with a unit of 100 layers for egg production. Similarly a net return of Rs 600 per mensem with a unit of 500 chicks for meat purposes would accrue to them with a capital investment of Rs 6,400, While there are prospects of obtaining adequate net returns, the limitations enumerated below require to be taken care of:

(i) It is necessary to determine the optimum number of layers and chicks that may make the poultry unit viable in the present context of soaring prices of feeds.

(ii) Often land on which poulty sheds could be constructed is not available with this class of borrowers.

(iii) They do not have the risk bearing capacity in the event of birds being severely affected by disease.

Dairying: (Milch animals) The present intake of milk in India averages about 110 grams per person per day as against per capita requirement of 284 grams as recommended by the nutritional advisory committee. The low level of consumption of milk is due to the low level of production. During the fifth five-year Plan period a massive dairy development programme is being undertaken which envisages setting up of 24 new milk schemes in towns with a population of over 50,000, four milk product factories and 64 rural dairy centres in areas with a population of less than 50,000. The dairy development programme inter alia includes measures for the introduction of a number of quality milch animals in the milk shed areas, production of fodder crops and manufacture and distribution of balanced feeds. Cross breeding coupled with genetic improvement of pasture and fodder have in recent years increased animal productivity and thereby net return per unit cost of milk production.

Recent studies have indicated that dairy farming under the present agro-economic situation is more profitable than arable farming. Thus, there is scope of providing milch animals to this class of borrowers in milk shed areas where intensive cattle development programme sponsored by the government is in operation or where dairy processing plants are already working or being established. This will help marginal farmer and agricultural labourers to earn a good amount of money from subsidiary occupations as well as provide a continuous flow of milk to urban and metropolitan centres. It is estimated that a well cared for buffalo or cross-bred cow would give a net return of Rs 1,600 per annum with a capital investment of Rs 3375. Some of the constraints in the way of a smooth implementation of such a well concieved scheme are given below.

some constraints

Buffaloes and cows of Indian breeds have limited productivity which cannot be increased beyond certain limits in spite of breeding, feeding and management practices of a very high standard.

Prices of cattle feeds, dry and green fodder is increasing at a rate that the marginal increase in the price of milk does not provide adequate net returns or justify maintenance of one or two milch animals by marginal farmers or agricultural labourers unless a definite arrangement, as provided by AMUL or Dudhsagar Dairy, is made.

There is the difficulty of providing a cattle shed for one or two milch animals at least during the monsoon season.

Marginal farmers do not have risk bearing capacity; they have sometimes to face the risk of sudden death of animals as well as a fall in productivity due to animals of sub-standard level.

Sheep and pig rearing: An all-out effort to step up wool production in the country to reduce the drain on our foreign exchange on the import of raw wool to the tune of Rs 21 crores has to be made. In accordance with the concept of introducing foreign breeds for the purpose of sheep development in our country, the central government has decided to establish large-scale sheep breeding farms in suitable regions. A beginning has already been made in the Gujarat state. Some parts of Gujarat, Rajasthan, Uttar Pradesh, Punjab, Haryana, Jammu & Kashmir, Andhra Pradesh and Karnataka which have warm climate and scanty rainfall are well suited for sheep development. If half-bred sheep are provided to this class of breeders the gross income per flock of 100 sheep would be around Rs 4400 per annum with a capital investment of Rs 8,000. Similarly, in Punjab, Haryana, Uttar Pradesh, Delhi, Jammu & Kashmir there appears to be good scope of pig rearing. Pig rearing gives quick returns with low investments. A net return of Rs 8,300 per annum may be obtained by rearing ten sows with a capital investment of Rs 6,300. However for sheep there should be adequate grazing area available. Also, rotation grazing should be practised and pasture developed on scientific lines. Arrangement for providing foreign breeds of pigs such as Middle Yorkshire-Berkshire and large White Yorkshire should be ensured. If adequate care is not taken the loss in pigs due to diseases is enormous. Pigs should be properly housed and protected from excessive heat.

Inland Fishing: Recent scientific developments in the areas of inland fishing have shown that with better care and management in waters where traditionally fish cultivation is practised, production of about 800 to 1000 kgs. of fish per hectare can be obtained even without resorting to artificial feeding. Results of scientifically managed inland fishing ponds have shown that with better type of cultivated species of fish, better care, management and artificial feeding, production of the order of 2000 to 2500 kgs of fish per hectare is not uncommon. Thus, this field has a potentiality of earning a gross income of about Rs 4,000 to Rs 5,000 per hectare. Areas in Madhya Pradesh, Uttar Pradesh, West Bengal, Rajasthan and Gujarat where there are several seasonal as well as perennial ponds could be better exploited for inland fishing. It is however, necessary that a cooperative organisation of fishermen is created so that capital investment is reduced, proper storage and marketing facilities are created, effective technical guidance is given and efficient supervison is undertaken.

The Marginal Farmers and Agricultural Labourers Development Agency established in 41 districts should make available at reasonable price genetically pure seeds, fertilizers, pesticides, layers, chicks, milch animals, sheep and pigs to these farmers and labourers.

The agency should also provide technical guidance and facilities of storage, processing and marketing of the produce.

It should create a risk stabilisation fund by collecting a reasonable amount from sale proceeds and contributing an equal sum to this fund. Wherever MF & AL Development Agency is not functioning, government may endeavour to provide a reasonable amount of subsidy to this class of borrowers to meet their capital requirements. Nationalised commercial banks in their lead bank districts with the help of branches of other banks should earmark the area of operation and streamline the financing procedure so that credit facilities to this class of borrowers are available without any loss of time.

Government should help in setting up farmers' service cooperative societies so that the aim of helping this class of borrowers is fulfilled. Since the society is expected to be the sole agency for taking care of all the developmental needs of small farmers, marginal farmers and agricultural labourers either directly or by making special arrangements with other agencies operating in the area, it is absolutely essential that the establishment of farmers' service cooperative societies is not delayed.

Anatomy of inflation in OECD area

London

Jossleyn Hennessy

I
Three Stages

THE RENEWED acceleration of inflation in the OECD area since mid-1972 has passed through three distinct stages.

First: Mid-1972 until about October 1973 saw sharp rises in the price of most primary commodities relative to the general price level. (See Table I p. 474) The imbalance between demand and supply in food arose mainly because of shortfalls in supply, whereas there was a rapid and coincident upsurge of output and final demand for industrial materials in most OECD countries. In a number of instance generally low producers' stocks boosted the price rise. Over this period the *Economist* dollar index of the spot price of food rose by

WINDOW ON THE WORLD

about 60 per cent, and the industrial materials index virtually doubled.

Second: From about October, 1973, it appeared that demand pressure, relative to the potential supply of commodities, had already, eased and would continue to do so. The October war in the Middle-East, however, changed matters. Substantial increases in the oil price followed the physical shortage of oil, arising from the embargo and from hoarding. Expectations of inflation resulted in a speculative boom in commodity prices which was unsupported by the underlying level or real final demand: historically, OECD final demand prices of industrial materials have moved more of less together, yet in this instance prices *rose* while industrial production *fell*, relative to trend. In many markets forward prices, although high by past standards, were well below spot prices. By April or May, food and industrial materials spot prices reached a peak, having risen to about 20 per cent above their October 1973 levels. The continuing increase in commodity spot prices led, with a lag of between six and nine months, to consequent increases in import unit values, wholesale prices and finally consumer prices.

Third: Date differing from country to country. Inevitably these price rises led wage earners in virtually all OECD countries to press for higher money wages in an attempt to restore their previous real income and at this point the inflation switched from being essentially of external growth, at least as far as any one country was concerned, to basically internal growth. Throughout 1973 a general accelaration in wage rates took place in most OECD countries and currently wages are growing extremely rapidly, although often not as rapidly as prices.

That there is a six to nine month lag between spot price movements and the consequent changes in transactions prices means that transactions prices prices will probably continue to rise until about the end of this year. Thus, regardless of how fast and how far spot prices fall, wage earners will find their real incomes continuously falling throughout 1974 unless money incomes rise are inflated with the general price level. This will happen where wages have been indexed; as the rate of growth of transactions prices slows down into 1975, money wage rates should also slow down. An alternative would be to moderate the rise in transactions prices through subsidies over the rest of the year, up until the time when transactions prices begin to fall. Subsidies have not, however, been adopted on a wide scale, so that continued rapid inflation throughout 1974 seems likely. In view of the distortion in the working of the price mechanism that subsidies cause, I am surprised that the OECD seems to condone them.

II
Imported Inflation

In 1974 the level of cif import unit values (or "transations prices") of non-oil commodities, including non-ferrous metals, is forecast to increase by approximately 30 per cent. This rise in price would add another one per cent to the Total Domestic Expenditure price deflator of the OECD area as a whole. (See Table II p. 475).

The 1974 level of transaction prices used for these estimates is relatively conservative, to which must be added the impact of the oil price rise estimated at 1¼ per cent for 1974 for the OECD area as a whole, and 2¼ per cent for Europe. Another half percentage point could be added to the OECD total if crude oil produced in the USA and Canada were to be sold on the domestic market at world prices.

The upsurge in prices of industrial raw materials of agricultural origin which started from a depressed level in early 1972, reflected initially abnormally low stocks. Supply difficulties from current output (jute) and buying sprees for stock-building (wool), however, also played a role. With the ending of initial stockpiling and the weakening of industrial demand, prices were expected to recede in the autumn of 1973, but the sharp rise in the cost of production of synthetic substitutes put a fairly firm floor under the prices of natural products. *Pulp and paper* prices have risen rapidly in the past two years, basically, because of inadequate growth of potential supply following many years of low prices. This market is likely to remain tight for some time to come. Depressed residential construction, notably in North America and in Scandinavian countries, has eased the lumber market.

Remarkably stable through 1972 and in the early months of 1973, free market prices of metals rose sharply from mid-1973 onwards. The stability, considerably aggravated by speculation, was fed not only by short-term supply difficulties, but by fear of concerted prooducer action. By early May, spot quotations for nearly all non-ferrous metals were still at or near their all-time peaks, but thers has been a marked decline since then.

More importantly, the much less volatile long-term contract and producer prices, at which the bulk of output is sold, moved up substantially, though still lagging behind the London Metal Exchange spot prices.

Marketing arrangements for primary commodities have been in flux in recent months. In particular, there have been several recent attempts by commodity producers to improve their control over prices. Although *phosphate* production is not cartelised, Morocco has a dominant position in the industry and has increased the price four-fold within the last year. Other phosphate producers have followed Morocco. The leading producers of *bauxite* recently met in Guinea to discuss closer cooperation. No decisions are known to have been taken, but recently Jamaica increased its royalty payments, and plans an additional tax on bauxite.

Producers of *mercury, iron, ore, rubber, copper* (excluding those from the USA, Canada and Australia), wool and tea have also met to discuss prices and/or marketing arrangements.

III

Hedging Against Inflation

An important feature of the present inflation is the movemeut out of financial assets into real assets. The stock market and gold have been traditional hedges against inflation. However, in the past 18 months equity prices have not only failed to keep up with inflation, but have been stagnant or falling in almost all countries. This was accompanied by a massive inflow of funds into commodity markets, where forward contracts have become an important instrument for hedging against inflation and for pure speculation.

Monetary conditions have further encouraged this tendency. With ample short-term credit available, notably on the Euro-markets, real interest rates became negative in late 1973 and there has been every incentive not only to prefer speculation to financial investment, but also to use borrowed money to speculate. The disrepute of the stock market as a hedge against inflation has been accompanied by a sharp rise of other forms of hedging, particularly the buying of property, notably land, as well as more esoteric real assets much as works of art, precious stones and stamps.

The acceleration of inflation created substantial income transfers, both within and between countries. The commodity boom, up to about the middle of 1973, boosted particularly the prices of agricultural products (wheat, meat, soyabeans, wool and cotton) of which some OECD countries are the major producers and suppliers. Hence, the corresponding income transfer took place mainly within the OECD area itself.

In the more recent phase, the large income transfer towards third countries was accompanied by a greatly increased flow of profits to companies engaged in this sector, whether their output was produced within or outside the OECD area.

The First National City Bank annual survey of corporate profits indicates a rise in the USA of 27 per cent between 1972 and 1973, for seven of the 43 sectors whose, profits rose by over 50 per cent. These seven sectors were: lumber and wood production; furniture and fixtures; paper and allied products; petroleum; iron and steel; non-ferrous metals; and metal mining. Similar developments occurred in Canada.

TABLE I

Spot Price Indices of Selected Commodities

(Based on $ prices 1970=100)

	1971	1972	1973	1973		1974
				Low†	High†	May†
Beef (Eire, London)	118	142	179	161 Feb.	199 July	(145)
Wheat (US, Kansas City)	107	124	242	157 Mar.	359 Dec. (393 Feb. 74)	(260)
Maize (US)	102	96	150	115 Mar.	248 Aug.	(195)
Sugar (Caribbean, New export) York,	120	200	257	240 Feb.	269 Nov.	645
Coffee (Brazilian, New York)	84	94	123	106 Jan.	132 Nov.	139
Cocoa (Ghana, New York)	78	94	187	109 Jan.	253 July.	335
Vegetable oilseeds and oils	105	92	162	104 Jan.	256 Dec.	301*
Soyabeans (US)	113	127	240	155 Jan.	427 June	(200)
Wool (Australian, Sydney)	84	152	344	317 Q2	372 Ql	(300)
Cotton (US 12 markets)	110	137	224	138 Jan.	324 Sept.	(230)
Rubber (Malaysian, London)	81	86	178	113 Jan.	250 Dec.	(205)
Copper (UK, London)	76	76	126	79 Jan.	161 Nov.	223
Lead (UK, London)	83	99	141	105 Jan.	195 Dec.	243
Tin (Malaysian, London)	95	103	131	103 Jan,	177 Dec.	262
Zinc (UK, London)	104	128	287	131 Jan.	547 Nov.	675

† Monthly averages. * April 1974.

Sources: IMF, International Financial Statistics: UNCTAD, Monthly Commodity Price Bulletin and Secretariat estimates *OECD Economic Observer*

IV

The Plight of Developing Countries

The increase in oil prices—which may add as much as $10,000 million to the import bill of developing countries other than the major oil producers—came at a time when the external position of non-oil developing countries as *a group* was stronger than usual. Prices of many other commodities were booming, and $15,000 million had been added to reserves in two years. Within the group, however, situations differ widely. Some countries which have done well out of the commodity boom and/or have relatively high incomes per head seem able, for the moment, to cover their increased oil bills relatively easily—by exports, drawing on reserves and other official financing, or by attracting additional capital inflows. Others, however, including some of the poorest countries, face the greatest difficulties which can be alleviated only by emergency aid on soft terms.

Those in difficulties include the Indian sub-continent, the Sahelian countries in Africa. and a number of Carribean countries. These countries are suffering from dependence on exports of commodities which have not participated in the general boom, such as tea, jute or bananas; drought or other natural disasters; and the simultaneous rapid incrcases in the prices of imports of oil, food, fertilisers and finished manufactures. (In some countries the oil price rise is only a relatively minor factor, because they are too poor to use much oil). Countries in this group are likely to have great difficulty in financing their balance of payments deficits. They have low reserves and their credit-rating does not permit recourse to borrowing in the markets; even the new IMF facility may be too expensive. Although it is difficult to quantify the special aid required by these countries, preliminary studies in various international organisations suggest that some $3,400,000 million may be required up to the end of 1975, some of it at once.

Although the immediate need is to ease the plight of the particularly hard-hit countries, over time a more general problem could emerge. The terms of trade of primary products relative to manufactures have probably reached a cyclical peak, and may well decline considerably. The cooling-off period in the OECD area *will, therefore, adversely* affect both the price and volume of developing countries' exports. As reserves are depleted, the number of comfortably placed, or creditworthy, countries will decline, with a resulting need for further arrangements to provide finance and or commodity price stabilisation.

Sources and acknowledgements: The foregoing summarises a special chapter in the current OECD *Economic Outlook* but the OECD is responsible neither for the emphasis of my summary nor for my interspersed comments based on a variety of sourees.

TABLE II

Contributions of c.i.f. Import Price of Oil* and Non-Oil Primary Products† to the Rise of the Deflator of Total Domestic Expenditure in 1973 and 74

(Percentages)

	Non-oil		Oil	
	1973	1974	1973	1974
Canada	0.7	0.7	—	—
United States	0.3	0.3	0.1	0.4
Japan	1.2	1.3	0.4	2.6
France	0.9	1.1	0.4	2.7
West Germany	1.3	1.5	0.2	1.5
Italy	1.9	2.1	0.6	3.8
United Kingdom	2.0	2.1	0.5	2.9
Belgium-Luxembourg	3.1	3.7	0.6	4.3
Netherlands	2.4	2.7	0.2	1.4
Denmark	1.2	1.5	0.3	1.8
Ireland	2.3	2.4	0.3	1.7
Austria	1.2	1.5	0.1	1.1
Finland	1.2	1 2	0.4	2.7
Norway	1.8	2.2	0.3	1.5
Sweden	1.0	1.1	0.2	1.0
Switzerland	1.4	1.8	0.2	0.7
Spain	1.4	1.4	0.5	3.2
OECD Total**	0.9	1.0	0.3	1.5
OECD Europe**	1.5	1.7	0.4	2.3

* Based on net imports in terms of crude oil.
† SITC 0, 1, 2, 4, and 68.
** Based on import figures including intra-area trade.

Source: Secretariat Estimates *OECD Economic Observer*

Bonn-Paris axis and the American connection

Vienna

E. B. Brook

THE UNUSUALLY anxious holiday month of August is over and west Europe, returning to work, is finding that most of its governments are taking some urgent steps to counter the effects of inflation and keep mounting unemployment from becoming a serious social problem.

The Germans, after unusually careful soundings, are supporting the staggering Italian economy with a cheap two-year loan of two billion dollars against a security of part of Italy's gold reserves. At home, W. Germany, faced with mounting evidence that its boom period in exports is drying up and rather more concerned than it will publically admit over continuing bank failures, is preparing a series of tough economic measures to check the extravagant spending which the German indulges in good times and to concentrate on checking the increasing lay-off of skilled labour. In the last few months the stockyards of almost all W. Germany's car manufacturers have filled with unsold new models, production has been cut back and some 50,000 skilled workers laid off to draw unemployment relief.

rise in prices

While in Italy the price of food essentials is going up by 50 per cent the French are finding themselves paying nearly 15 per cent more to life than they did a year ago. Europe's fast inflation table starts in the far north with a 43 per cent rise in prices in a year in Iceland with Greece second with 30 per cent inflation and Portugal third with a relatively moderate 25 per cent. Of the bigger countries Britain leads with a rise in living costs over 12 months of 17 per cent followed by Italy with just over 16 per cent, France anxiously third with nearly 14 per cent and West Germany relatively well off with just under seven per cent rise. Percentages can be a deceptive form of statistics, for, while Britain shows a percentage rise in living costs three times as high as W. Germany it is still much cheaper to live in London than in Bonn and cheaper to live even in Bonn than in Stockholm. The British have still west Europe's cheapest capital and northern Europe remains one of the most expensive areas despite—possibly because of—its prosperity.

In difficult times nations, like individuals, tend to concentrate overmuch on their own troubles. Inflation has now replaced other menaces such as industrial pollution as bogey number one. Inflation is no new thing—historically it can be traced back as far as the third century and it could probably be traced even farther back if sufficient records had survived.

world-wide phenomena

What is more unique about the present situation, which looks like lasting a while, is that inflation is almost worldwide. At the same time, in many parts of the world, and certainly in west Europe—probably in east Europe also—people have never lived so well. More people live in dwellings that are (nominally) their own property, food is freely available in greater variety than ever before and all over the continent more people (at least nominally) own their own cars and, in the more extravagant luxury lands, two or three. The word nominally has been inserted because a very large part of this property and vehicle ownership is done on extensive credit extended by banks, building societies and by manufacturers in the form of hire-purchase. Credit, in fact, has become over-extended, leading not only to bank failures—especially among private banks—but eventually to devaluation of currencies. Governments carry on their business with the aid of huge loans from international funds, from oil-owners such as Iran or by lending one another money on short-term conditions so that, from governments down to the small flat-owner using hire-purchase furniture and a part-paid car, the entire economies are living on borrowed money—a condition which can only be met by economically unjustified pay increases and by printing more money and increasing the strain on currencies' gold backing.

In such circumstances it is little wonder that many businesses become increasingly difficult to manage, that bankruptcies are increasing everywhere—by 40 per cent in West Germany and by 23 per cent in more cautious France—and there are worried comparisons with the contraction in the money supply in the USA in 1929 that led to the great depression in the 1930s.

Fortunately—and despite much that is written to the contrary—there is closer collaboration today between the USA and west Europe than ever before. The USA is a very active member of the OECD based in Paris, it welcomes the existence and expansion of the Common Market despite frequent arguments and the clearing of many difficulties in the way of the US Trade Bill since Mr Gerald Ford became US President suggests that the fears expressed a few weeks ago that slow progress over that bill in the US Congress might impede the world trade discussions under GATT auspicies in Geneva have almost disappeared. While no one can say how soon the US bill will be passed and signed—this year or early next year—the fact that it will probably be passed more or less in the form drawn up by former President Nixon means that a major uncertainty has been removed from the course of the Geneva discussions.

dependence on the US

Although the fact remains, as the American ambassador, Mr Charles Bohlen, once remarked, that "the only trouble with US—European relations is that America is just too big and strong.... we are more independent of Europe than Europe is of us and its hard for people on both sides of the Atlantic to understand the differences", it is fortunate that both Germany and France are now led by men who understand and intend to cooperate with "the American connection". If President Giscard d' Estaing of France sounded a trifle peeved when he commented last week in a televised address on the fact that the new US President had omitted any mention of Europe in his address to Congress and the American people, the French leader has shown several times a far more responsive mind than either of his predecessors at the Elysee, of the need for cooperation across the Atlantic in almost all spheres. West Germany is very conscious of the fact that, while it is now exporting as much to the western world as is the USA this trade accounts for 23 per cent of its Gross National Product while America's exports account for only five per cent of the USA's GNP. It is fortunate that President Ford has been quick to respond reassuringly to the implied criticism from Paris and that he wants a "productive and co-operative relationship with France and Europe, a condition requiring reciprocity."

The laggards in cooperation generally are often the members of the Common Market which, unlike the USA, has still

to empower a representation at the GATT world trade discussions. At the moment the Market is concentrated much nearer home in considering floating an international loan of about five billion dollars to help Britain and Italy—either from the Eurodollar market or from Arab oil-producing states—and on its negotiations in November on pushing forward the proposals for closer economic and financial cooperation with the Arab League which it began in Paris last month. One form of this cooperation has just been concluded—a loan for nine years to Egypt of 100 million dollars by a consortium of Arab and French banks—consisting of 32 banks in western Europe, the Arab states, Hong Kong and the USA. The guarantors are the nine Common Market states—principally West Germany and France—of whom West Germany holds the largest gold and dollar reserves in the world, about 35 billion dollars, making Bonn at present the arbitor in part of such weaker Market partners as Britain and Italy as well as of some weaker cooperators in the Arab world.

Migrating population for qualitative change

Kathmandu

Navin Chandra Joshi

IN NEPAL, the population problem assumes two dimensions. First, it has a rising trend in population growth from year to year in absolute terms. Second, there is the problem of intra-regional population disparity with the result that there is a great wastage of manpower resources. It is this second aspect of the problem that I am trying to focus on for highlighting some implications of its possible solutions.

It would be pertinent to note that the 1971 census of Nepal calculated the total population at 11.5 million persons which has now crossed 12 million, increasing at the rate of 2.07 per cent per annum. The average density of population is 79 persons per square kilometre which is roughly three times that of the world average of 27. The following table gives an idea of the density on the basis basis of the broad regions of the country.

Nepal : Area, Population and Density

Region	Total area (sq. km.)	Population (millions)	Density (per sq. km.)
16 Mountain districts (exceeding 3,000 metres in altitude)	50,122	1.1	22
39 Hill districts (900 to 3,000 metres in altitude)	64,331	6.0	94
Kathmandu valley (Three districts)	1,074	0.6	576
Terai	18,380	4.3	140

From the foregoing table, it is apparent that the problem of regional concentration of population in the peculiar topography of the country is something which must be solved through an appropriate and pragmatic population policy. Such a policy could be either concentrating development efforts more and more in mountain and hill regions or to migrate a part of their population to the terai region or doing both. As much as 94 per cent of the total population deriving its livlihood from the agricultural sector, 9,200 square miles or 5.9 million acres which is 16.9 per cent of the total land area, is not sufficient for raising the levels of living. According to the 1971 census, the density of population in the cultivated area is 5.757 per hectare for the country as a whole.

small holdings

The average size of agricultural holding is very small—ranging from 0.4 to 0.6 hectares in hills and 3 to 5 hectares in the terai area. Clearly, there is a heavy pressure of population on the cultivated land in mountain and hill regions. The density of population on cultivated land in hills is almost four times that of the terai area which is evident from the fact that there is too much of disguised unemployment in mountainous and hilly regions.

Dr. Harka Gurung, Deputy Chairman of the National Planning Commission, has suggested migration of some population to the lower density terai while simultaneously undertaking massive rural works programmes in hill regions. Dr. Gurung observes that this will necessitate reducing farm size in the terai for the purposes of intensive farming and for inducing high density population. According to him, in the totality of this policy, immigration from across the border will be checked.

As regards reducing the size of the farm the experience of eastern terai probably serves as a good guide for this policy. "The population of eastern Terai doubled during the period 1952-1971 but at the cost of reducing the forest area by half." Dr. Gurung rightly concludes that "the increased population of Terai cannot be absorbed by expansion of crop land alone without ecological consequences."

One may, however. argue that reducing the size of farms in developing countries would, apart from involving difficulties in its implementation, aggravate in the long-run the problems of sub-division and fragmentation of holdings. The farm size of 3 to 5 hectares in the plains of terai is just an economic size at the margin. As such, the better course would be to bring new land under cultivation for settling the migrated population in new farms. These farms could be of sufficiently large size in order to reap advantages of scale of operation, technology and joint farming. At the same time, however, they should not come about at the expense of forest resources. If that happens, even small plots of land could be used for intensive cultivation. In any case, it is a question of cost-benefit analysis on a long-term basis as to which is economically better—conservation of the existing forests or creation of cultivable land through some depletion of forests.

For the purpose of rehabilitating the surplus labour of mountains and hills in the terai area, the government will have to arrange for housing, medical and other civic amenities for the growing population of terai from year to year. Besides, more agricultural inputs in the form of seeds, manure, machinery and implements, irrigation water, storage facilities, etc., will have to be provided. A net migration to terai will mean a long process of human adjustment to new climatic and social environment and for this purpose, the government will need to create suitable conditions.

As for checking immigration from across the border, it is doubtful if the policy of migrating people from hills and mountains will really help achieve the purpose. It is an open secret that Indian labour is engaged in terai farms mainly for the reason that it is the easiest way of circumventing the provision of 'land to the tiller.' The Indian workers being aliens cannot become owners under any circumstance by virtue of tilling the land. So, the present landlord farmers continue to employ labour from across the border for the fear of losing land to the local migrated population.

Finally, migration involves the question of improving the hill economy of the country. Surely, the economic condition of the upper regions' people can be improved through implementing massive rural works programmes as suggested by Dr. Gurung. One study on population migration of Nepal presented for discussion at the recent CEDA seminar on Population and Development, indicates that "Although population has increased in the Terai, this has not been accompanied by a decrease in the hills. The growth rate in the hills may have decreased but the absolute number of people has not. The problem of the hills is not solved by shifting people to the Terai, because it is only the incremental population which is being shifted." This finding focusses on the need for creating employment opportunities both in the hills as well as in the terai. All migrated labour should not be engaged in agricultural work. As such, some of them will need to be trained for industrial and service sectors.

In the ultimate analysis, therefore, any policy for solving the intra-regional population problem must emphasise the primacy of a qualitative change to be brought about in the nation's manpower consequent upon their migration to a new environment. Unfortunately, developing countries do not plan for such consequences in advance. Demographic changes between regions have a substantial impact on the demands for housing, education, employment, health and social services. Such demands cannot be met with existing resources and priorities. The contemporary theory of economic growth tells us that increases of labour and capital, unaccompanied by technical progress and improvements in economic organisations, add to domestic product but not to productivity or to Per Capita Income. The latter is a function of advances in technology and efficiency of economy both of which depend on improvements in the quality of labour inputs and not on the accretion of their quantity. Therefore, improvement in the quality of labour and economic organisations should take place through education including scientific research and technical training.

MOVING FINGER

The prime minister surely insulted the intelligence of our people when she sneeringly said recently that those who complained of corruption in the land were able to name only four people, namely, she herself, her son (Mr Sanjay Gandhi), Mr Bansilal and Mr L. N. Mishra. (Was there a Freudian slip on her part in assembling this odd quartet ?) To attempt to deal so casually with what is admittedly one of the gravest ills of public life, politics, business, government and administration in our country is clearly unbecoming of the leader of the ruling party. It may perhaps be legitimate for Mrs Gandhi to plead that she alone should not be blamed for this evil condition. But to pretend that the evil itself does not exist or even that it does not exist in a grave form is to encourage or perhaps confirm the thought in the public mind that she, her party and her administration are perhaps much more responsible in one way or the other for the prevailing corruption than is generally suspected.

For an unconscionably long period now members of parliament have been kept waiting for the information they have been asking for about the affairs of *Maruti*. As for Mr Bansilal or Mr L.N. Mishra, her own partymen have not been successful in generating moral pressure enough for her to agree to a probe into the allegations against them by an impartial commission of inquiry or tribunal; and, in both these cases, it is posible that Mrs Gandhi has reasons of her own for not wanting dirty linen to be washed in public.

It is true that, in parliament, the allegations against Mr Mishra have been related to his involvement in the affairs of the Bharat Sevak Samaj in Bihar, but it is obvious that Mr Mishra's primary status as a target for charges from the opposition benches in parliament or other sources is that he is suspected of being or at least having been an indefatigable fund-collector for his party, along with certain other ministers or former ministers. In these circumstances it should be difficult for Mrs Gandhi to imagine that she will be able to still doubts in the public mind by belittling the corruption problem.

Mrs Gandhi is not being fair to herself when she refuses to give an opportunity to her administration to rehabilitate itself in the people's confidence. Worse still, she is not being fair either to her colleagues in the government. The other day I came across a small group of people heroically attempting to identify honest ministers in Mrs Gandhi's cabinet. All of them readily agreed on the name of Mr Bhola Paswan Shastri—on the ground that he does not have wit enough to be different. Almost all of them were ready to believe that Mr Swaran Singh would qualify, their argument being that he had become so used to being a minister that he would be the last person to run even a very remote risk of losing his place in the cabinet. Most of them were also more or less sure that Dr Karan Singh could be added to their list—he had so much money that he would not know what to do with more, especially as he was one of those who rather stuck close to their cash. After this all was silence. I would readily concede that this was not quite fair to several honest men who are undoubtedly to be found in Mrs Gandhi's council of ministers, but I would not blame those who may not share either my trust or my optimism. But I do blame Mrs Gandhi for pretending that corruption is not a major economic, political or social problem in our country at present.

Two ex-maharajas—I am not referring to the locked-out pilots of Air India—were in foreign countries recently to try to win name and fame for themselves and their country. Dr Karni Singh, taking part in the trap shooting contest at the seventh Asian games in Tehran, bagged a silver medal. Dr Karan Singh, who led the Indian government team to the United Nations conference on population held in Bucharest, seemed to have fared rather less well. Even if it could be assumed that he had to speak to his official brief, it was sad indeed that he should have played so large a part in confusing the issues at this conference. India, after all, can take pride in the fact that its government has been the first in the world to adopt a birth control campaign as an official policy for the nation. Against this background the Indian representative at the Bucharest meeting had a clear obligation to play a precise and pragmatic part in helping to concentrate more attention and effort on population control. Instead, he chose to indulge in the usual soap-box oratory about rich nations having to share their wealth or resources with poor nations before expecting the latter to control their populations. I wonder what Dr Karan Singh's answer would be if slum-dwellers in our cities or landless labour families in our villages were to demand that the more affluent people among ourselves—of whom Dr Karan Singh, presumably, must be one—should share their riches with them before they could be expected to accept a *nirodh* or undergo vasectomy.

Hypocrisy, surely, must have some limit. Unfortunately, nobody seems able to discipline it at all in this country. Take, for instance, a report in one of our national dailies from its Washington correspondent. Foreign correspondents of Indian newspapers, generally speaking, are an underemployed tribe. They write little and think less. Even so, it was rather surprising that on this occasion, the correspondent concerned should have imagined that he could get off with a report which suggested that the Americans were coming to feel increasingly that they should spare fertiliser supplies to India by cutting down their consumption for less essential purposes, such as fertilizing lawns, growing greenery in cemeteries or even nursing flowers in public parks or private gardens. Could it be the implication that in India itself such fertilizer as is available is being used only for growing rice or wheat, or export crops such as tea? Are not fertilizer mixtures being used in our country too for greening private lawns, public parks or growing chrysanthemums and roses for exhibitions? So far as I know, while the high prices of fertilizers may inhibit their use in the growing of crops especially by small peasants, it has not made much difference to its being used in the upkeep of the lawns and gardens of the affluent sections in our country.

In any case, when most of our municipalities have not even started making an attempt to conserve and process night-soil for manuring fields, it is surely an impertinence to imply that people thousands of miles away should be conscience-stricken about using fertilizer for their lawns or gardens because Indian farmers have to do without it.

VB

TRADE WINDS

Export of Sugar

SUGAR HAS become the biggest single foreign exchange earner in India's exports. An impressive rise of nearly 40 per cent in exports during the first quarter of the current financial year is attributed largely to sugar. In these three months, the export figure has gone up to Rs 643 crores as compared to Rs 460 crores in the corresponding period of 1973-74. Of this, sugar alone, it is learnt accounts for Rs 225 crores. High world prices have proved favourable. Outside the preferential quota, 140,000 tonnes have been exported during the year. Another 300,000 tonnes are to be supplied by December under contracts finalised so far. Among the non-preferential countries to which sugar was exported included Indonesia, Iran, South Yemen People's Republic, the Sudan, Sri Lanka and Maldive Islands. Sugar exports have been taken over by the State Trading Corporation (STC).

Steel Output : 1974-75

Steel availability in 1974-75 is expected to be over seven million tonnes as against 5.67 million tonnes in 1973-74—an increase of 24 per cent. This was revealed by Mr M.A. Wadud Khan, Secretary (Steel) and Chairman, Steel Authority of India Ltd. (SAIL) at a meeting of the Steel Priority Committee recently. Out of the total steel availability, 5,044 million tonnes will come from the integrated steel plants—an increase of 16 per cent over last year's production. Purchases from overseas will amount to 562,000 tonnes this year. In addition, there is a spill-over of 538,000 tonnes from last year's shipments. A supply of 840,000 tonnes is expected from arc furnaces and other sources. In order to increase steel supplies to consumers, it is also planned to reduce inventories with steel production by 200,000 tonnes.

Mr Wadud Khan pointed out that the working results of the major steel plants during the five months—April to August 1974—indicated that the overall availability target would be achieved. He said that production from the integrated plants during April-August 1974 had been 1.84 million tonnes—well above the production target fixed for the period. Total steel supplies to consumers during April-August 1974 from all sources had been 250,000 tonnes more than the corresponding period of last year.

Deposit Insurance

The deposit insurance scheme is being extended to 370 co-operative banks in Karnataka, Kerala, West Bengal and the union territory of Pondicherry. This was revealed in the annual report of the Deposit Insurance Corporation for the year ended December 1973.

The total deposits of banks (commercial and cooperative) insured under the Deposit Insurance Scheme increased by Rs 1,197 crores between September 1972 and September 1973, as compared with an increase of Rs 431 crores recorded in the previous twelve months. Insured deposits as on the last Friday of September 1973 amounted to Rs 5,852 crores out of the aggregate assessable deposits of Rs 9,152 crores, against Rs 4,655 crores out of Rs 7,458 crores a year before. Insured deposits as a proportion of total assessable deposits thus rose from 62.4 per cent to 63.9 per cent. The number of fully protected accounts — that is, with balances not exceeding Rs 10,000—went up by nearly 7.1 million to 39.9 million out of the total of 41.5 million accounts.

The percentages of fully covered accounts and deposits continue to be higher in the case of smaller commercial banks. The proportion of fully protected accounts to total number of deposit accounts in 1973 remained unchanged at 98.8 per cent in the case of small-sized commercial banks with assessable deposits of Rs 1 crore or less; the relative percentage for medium-sized commercial banks (with deposits exceeding Rs 1 crore but upto Rs 50 crores) exceeded 97 per cent, while it ranged between 95.3 per cent and 95.8 per cent in the case of bigger banks with assessable deposits exceeding Rs 50 crores. The position was more or less similar in the case of cooperative banks.

At the end of December 1973, there were 492 registered insured banks (81 commercial banks and 411 cooperative banks) in the states of Andhra Pradesh, Jammu and Kashmir, Madhya Pradesh, Maharashtra and the union territory of Goa, Daman and Diu. The scheme of insurance of deposits covering cooperative banks has been extended to the union territory of Delhi with effect from April 1, 1974. No claim had to be paid by the Corporation during the year. The total amount of claims paid or provided for in respect of the 14 banks remained unchanged at Rs 113.04 lakhs.

Exports During 1974-75

Exports during the first four months of 1974-75 registered an all-time record increase of 44.5 per cent over the corresponding period last year. According to the provisional figures available with the ministry of commerce, the export value including re-exports during April to July, 1974, was Rs 954 crores, as compared to Rs 660 crores during the same period in 1973. Exports in 1973-74 increased by 25 per cent, over that of 1972-73. Commodity-wise break-up of exports from April to July this year is available at this stage only for a few items. Of the total increase, sugar alone accounts for Rs 57 crores. The balance is accounted for by a variety of other commodities and products, including marine products, cashew kernels, coffee spices and handicrafts.

Indo-Yugoslav Statistical Research

India and Yugoslavia have agreed on a programme of further cooperation in the field of statistical research. Under the programme, next year Yugoslav statisticians would receive further training in India and Indian specialists would visit Yugoslavia to assist Yugoslav activities in this field.

Indo-German Trade

During the first six months of 1974, the volume of trade between India and the Federal Republic of Germany increased to Rs 201 crores from Rs 107 crores during the same period in 1973. Thus the volume of trade nearly doubled. Indian exports to Germany amounted to Rs 61.5 crores and Indian imports from Germany to Rs 139.5 crores.

Indian Oil Corporation

The Indian Oil Corporation made a net profit of Rs 22.17 crores for the year ending March 31, 1973, as against Rs 31.94 crores in 1971-72. The annual report of the Corporation and a government review on its working were placed on the table of the Lok Sabha recently. The turnover of the Corporation for 1972-73 amounted to Rs 996.15 crores as against Rs 862.04 crores for the previous year.

The review stated that the actual throughput of the Gauhati, Barauni and Gujarat refineries during 1972-73, totalled 69,13,799 tonnes as against a target of 7,025,100 tonnes. The feasibility report for expansion of the Gujarat refinery to 7.3 million tonnes had been approved by the government. Imported crude oil for the expanded refinery would be transported from the Gulf of Kutch through a pipeline. The expansion project was expected to be ready by February 1977. The detailed project report for the six million-tonne capacity Mathura refinery was expected to be furnished by the Soviet authorities in January 1975.

Rupee-Rouble Exchange

The Indian rupee has hit a new low in its exchange rate with the rouble following the latest readjustment of the rate by the USSR Bank of Foreign Trade. The new rate announced by the bank recently and operational from September is 9.47 roubles to Rs 100 which is the lowest rate for rupee so far. For three months ending August the rate was 9.55 roubles to Rs 100 and the readjustment is on the basis of the rupees linkage with the sterling whose value is also reduced for September from 1.78 to 1.72 roubles to a pound. The rupee was quoted here at the constant rate of 11.39 roubles to Rs 100 for a long time until March this year when the rate was revised. According to the bank authorities here, this was done to bring the rupee's relation to the rouble in line with its equation to other convertible currencies.

Indo-Bulgarian Trade

The Bulgarian Ambassador in this country, Mr Stoyan Zaimov, told a press conference recently that Indo-Bulgarian trade was expected to reach a new high this year as there were many areas for augmenting the cooperation between the two countries. He added, however, that only 25 per cent of the Rs 11.2 crores Bulgarian credit to India extended in 1967 had so far been utilised. More credit would be available depending on its utilisation. Under this existing credit 13 plants have been established. Among them the sulphuric acid plant at Sindri, having a daily output of 880 metric tonnes of sulphuric acid, is the largest. Mr Zaimov pointed out that a sophisticated plant for the life-saving medicine, gamma-globulin, went into stream last year. It was proposed to set up a modern cooperative agricultural farm near Bangalore. It would have facilities for food processing, poultry and experimental farming. Electronics was another possible field for useful cooperation between the two countries. He suggested, Bulgaria could also offer assistance to this country to manufacture rose oil which was selling at $ 15,000 a kg in world market.

Assistance from Denmark

An agreement for a new Danish loan of 50 million kroners (Rs 6.7 crores) was signed recently as a sequel to the talks held last May between an Indian delegation visiting Copenhagen and the Danish International Development Agency. The loan will be utilised for import of machinery for fertilisers, petrochemicals and rubber industries, electronics, electrical equipment, machinery for food processing, dairying and storage, and machine tools for small, medium and large-scale industries. Denmark has also agreed to extend "grant assistance" of 250 million kroners (Rs 33.65 crores) to India during the fifth Plan, including 16.8 million kroners (Rs 2.26 crores) as debt relief. The terms of Danish assistance have become softer over the years and since 1968 these have been completely interest free with a repayment period of 25 years, including a grace period of seven years. The terms have now been further liberalised with the repayment period extending to 35 years and the grace period to 10 years.

Unit Trust

The Unit Trust of India may make selective purchases of equities and place more emphasis on acquiring fixed income securities and may employ funds in the short-term money market till the climate of uncertainty in share markets prevails. It may enter the equity market in a relatively big way only after share prices stablise, according to Mr James Raj, Chairman of the Unit Trust. Mr Raj, who was addressing the members of the Bombay Shareholders' Association, stated that the Trust would have to realign its investment policy in view of the changed circumstances following restrictions on dividend payments. He added, however, that there was a satisfactory net inflow of funds and that the Trust's financial position was quite comfortable with cash on hand in short-term money markets totalling about Rs 15 crores.

Unit Trust of India has declared a dividend of seventy paise per unit under the Unit-Linked Insurance Plan for the year ended June 30, 1974. The rate of dividend is the same as in the previous years. The plan provides a facility for regular savings in the units of the Trust combined with life insurance cover for the ten year period of the Plan. The contributions under the Plan also rank for income-tax rebate in the same manner as life insurance premia, contributions to provident fund etc. The dividend is automatically reinvested in further units under this Plan and as such no dividend warrants will be issued.

Power Shortage in Punjab

In a recent visit to the capital, Gaini Zail Singh, chief minister, Punjab, impressed upon the prime minister, Mrs Indira Gandhi, Mr Uma Shankar Dikshit, Home minister, Mr C. Subramaniam, Food and Agriculture minister and Mr K. C. Pant, Irrigation and Power minister the need for increased electricity for the state. He told them that reduced availability of power had prevented the farmers maximising production by using available agriculture technology and contributing maximum foodgrains to the national pool. He sought their help in expediting the clearance of Anandpur Sahib Hydel project, Mukarian Hydel project and Thein Dam and U.B.D.C. stage II project as they were technically sound. He pleaded that the programme of construction of these projects should be delinked from the settlement of inter-state disputes. He requested that power should be diverted from Rajasthan and Delhi Electric Supply to Punjab to enable the farmers to go ahead with their grow more food programme. He also appealed to them that additional diesel should be supplied to farmers of Punjab as they were suffering hardship due to its shortage.

Rural Electrification Corporation

The Rural Electrification Corporation (REC) has introduced two new categories of loans. The first, a 30-year loan is intended exclusively for rural electrification projects in the MNP (Minimum Needs Programme) areas. This loan which carries an effective rate of interest of 5¾ per cent during first ten years, 6¼ per cent for the next 10 years and seven percent thereafter, will be confined to villages only, but in the case of specially under-developed, hill and tribal areas, may include small towns having a population of not exceeding 20,000. The second category of loan termed as Advance Loan for Potential Project Areas (ALPPA) will cover areas which have an immediate or proximate potential for agricultural development and in respect of which within one to two years there is a prospect of a regular REC project materialising. During the current year 10 MNP and eight PPA schemes have been sanctioned by the corporation. Another important feature of the corporation's loan policy during the current year is the decision to finance, if the need arises, small power generation units in remote rural areas.

This will, however, be done only in areas which have a potential for development and where local generation will be the cheapest of alternatives for providing electricity.

The corporation has to date sanctioned 703 projects involving a loan assistance of Rs 327.36 crores. When completed, these schemes will result in extension of electricity to about 59,000 villages and provide power for nearly 5.95 lakh agricultural pumpsets. Additionally, these schemes will supply energy for over 94,000 agro-based and light industries, besides providing for 2.15 million commercial and domestic connections and 350,000 street lights in the rural areas. The corporation has in addition sanctioned 85 schemes for the electrification of harijan bastis for which loan assistance of Rs 3.92 crores has been approved. In the four years of its active life as an institution of development finance, REC has sanctioned 651 area-based development projects of which 342 are in the backward and specially under-developed areas.

New Tyre Units

The West Bengal Industrial Development Corporation signed a detailed technical agreement with Dunlop Limited, England, and Dunlop India Limited in London on August 27, providing for the establishment at Durgapur of an automotive tyre factory to manufacture 500,000 tyres and tubes every year. A Dunlop India announcement stated that a similar agreement was signed in London between the Andhra Pradesh Industrial Development Corporation and the Dunlop units for a tyre factory at Guntur. Under the agreements, Dunlop England will provide the know-how and technical documentation for the factories continuing technical information will be supplied by both Dunlop England and Dunlop India for five years from the commencement of production. It is expected that the factories will be ready for production by 1977-78. The new tyre factories will help meet the demand for automotive tyres, particularly truck tyres, which are in short supply in the country.

Kerala Electronics

The Kerala State Electronics Development Corporation has developed in less than one year of its inauguration, a number of sophisticated industrial and consumer products which were launched recently under the brand name "Keltron". The products include electronic calculators, variable speed drives, production monitoring systems, uninterruptible power supply systems, mechanical, electromagnetic and electronic counting devices with digital displays, under frequency detection and control equipments, 16 mm cine projector, loudspeakers, direct current magnetiser and information display systems. The corporation

has already commenced manufacture of TV receivers. Its present capacity is 5,000 which will go up to 20,000. Mr K.P.P. Nambiyar, Chairman of the corporation revealed recently that it was planned to set up plants for the manufacture of piezo-electric crystals used in communication equipment, colour TV receivers and digital clocks.

Scooter Unit in Bihar

Mr T.A. Pai, union minister for Heavy Industries, laid the foundation stone of a Rs 8 crore scooter factory at Futwah near Patna. A project of the Bihar State Industrial Development Corporation, the factory, when commissioned would produce 30,000 scooters annually by 1979-80. It would start with an annual production of 6,000 scooters in 1975-76.

Udyami Awards

Eight entrepreneurs were presented the Udyami Shri awards for 1974 at a function in Vigyan Bhavan recently. The award winners were: Mr Anand Bhushan, Mr Asit Kumar Dhar, Mr Dilip Kumar Hore, Mr Maheshwar Sahai, Mr P.K. Gupta, Mr R.N. Biswas, Mr Ravi Mohan Monga and Messrs Technofab Engineering (Pvt.) Ltd. President Fakhruddin Ali Ahmed inaugurated the seventh annual conference of the National Alliance of Young Entrepreneurs (NAYE) and the second anniversary of BINEDS (Bank of India—Naye Entrepreneurship Development Scheme).

Dealing with the role young entrepreneurs could play, Mr Ahmed referred to the setting up of agro-service centres in rural areas and pointed out the induction of entrepreneurs who would promote innovations and ideas. It would also prevent migration of educated youth from rural areas to urban areas. Mr Ahmed also presented the Laghu Udyog Ratna award for 1974 to the Chairman of Bank of India, Mr J.N. Saxena. The conference decided that the 1975 award of Laghu Udyog Ratna should go to Mr G.P. Shrivastava, Managing Director, Delhi Small Industries Development Corporation, for promoting entrepreneurship.

Names in the News

Mr Moeen A. Qureshi has become Vice President of the International Finance Corporation. He succeeds Mr Ladislaus von Hoffmann, who becomes Executive Vice President of the Corporation on the retirement of Mr William S. Gaud. Mr Qureshi, a Pakistan national, has been Economic Advisor in IFC since 1970.

Mr Jayant J. Mehta until recently Chairman and Managing Director of Indian Petro-Chemicals Corporation Limited at Baroda, has taken over charge on August 31, 1974 as Chairman and Managing Director, Polymers Corporation of Gujarat Limited, Chairman of Gujarat Alkalies and Chemicals Limited and Director, Gujarat Industrial Investment Corporation Limited.

COMPANY AFFAIRS

Equities Slip Back

THE WEEK ending September 7, witnessed the stock markets in the country in a rather depressed mood. In the absence of buying interest, there was some nervous unloading, leading to a fall in share values. The decision by the Unit Trust of India to make purchases in equities when the market stabilised, further affected the sentiment adversely. It was clear that the financial institutions were not keen to lend support to the market. Dalal Street was demoralised following the disappointing dividend announcements by major companies. Some leading equities touched a new low for the year. The power situation in the country which has been deteriorating rapidly has been causing concern. With the possibilities of power disruption, the fear of fall in industrial production was not baseless. Under these circumstances, the stock market was bound to be far from optimistic.

Birla Jute

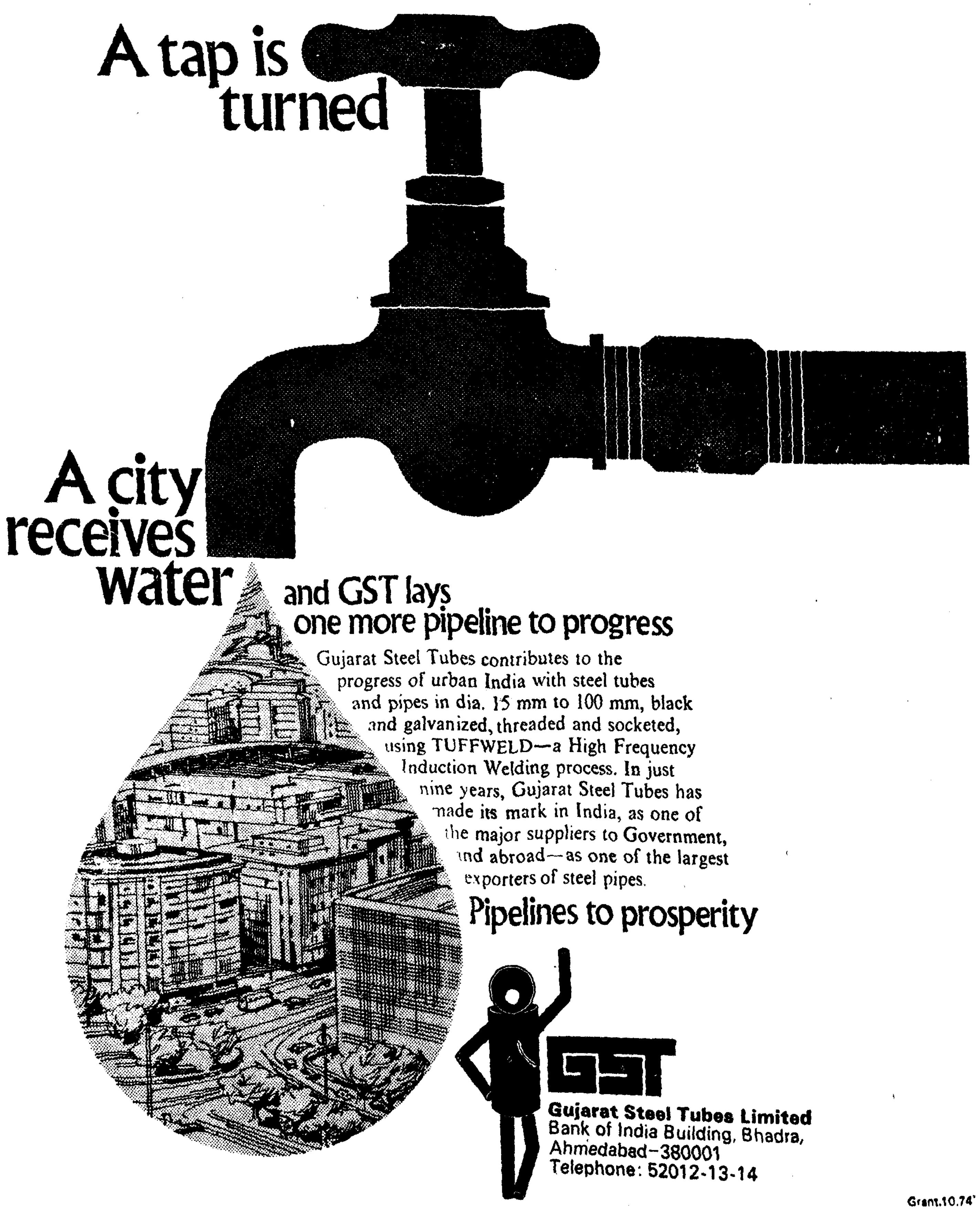
The directors of the Birla Jute Manufacturing Co. stated in their annual report for the year ended March 1974 that the company's new cement plant being set up at Durgapur is expected to be ready for trial runs from October and achieve regular production from March 1975. This, however, is subject to the availability of power from DVC, with which the company has a long standing agreement for the supply of 6,000 kva of power. In case there is any delay in getting the contracted power, it will hold up the commissoining of this plant, which is the first and only cement factory being set up in West Bengal. The company's application for setting up a clinker unit at Patratu in the Hazaribagh district is still awaiting government sanction.

Due to the company's own power plant at Birlapur, its production and export of jute goods did not suffer. Power cuts have seriously affected the working of the jute industry in the state. Another factor affecting production of jute goods was the long-drawn industry-wide strike for 33 days in January-February 1974. The prospects of the jute crop in the current year are not bright. With the help of increased production and rising demand, the working of the company's calcium carbide division during 1973-74 revealed an improvement over the previous years. Production of calcium carbide was 14,764 tonnes (13,137 tonnes), of oxygen 1,962 million cubic metres (1,864 million cubic metres) and of acetylene gas 154,000 cubic metres (159,000 cubic metres).

Zenith Steel Pipes

The directors of Zenith Steel Pipes Ltd have proposd to issue, subject to the sanction of the controller of capital issues, bonus shares in the ratio of four shares for every five shares held by capitalising a sum of Rs 1.12 crores out of the company's reserves. They have also recommended a dividend of 12 per cent, the maximum permitted for the year ended April 30, 1974, against 14 per cent paid for the previous year. The company has shown good performance for 1973-74 with a gross profit jumping to Rs 2.55 crores from Rs 93.34 lakhs for the previous year. Its sales increased by 83 per cent to Rs 17.73 crores from Rs 9.70 crores.

The sharp rise in sales and profit is attributed to improved plant efficiency and adequate availability of major raw materials — steel and zinc. The production of steel pipes increased by 25 per cent during the year. The licensed capacity, as a result of technical improvements effected, has been assessed higher at 91,000 tonnes against 72,000 tonnes a year by the DGTD. During the current year, the company's production, sales and exports are considerably larger than those in the corresponding period last year. The company's sales during May-August 1974 have totalled Rs 9.20 crores against Rs 4.52 crores in the corresponding period last year. Its production has amounted to 16,000 tonnes against 14,000 tonnes. Its exports, which touched a record level of Rs 5.88 crores during 1973-74 — an increase of 150 per cent over 1972-73. The value of steel pipes exported during the first four months of this year is placed around Rs 2.77 crores against Rs 1.11 crores for the corresponding period last year. The company's mini-steel plant at Khapoli is expected to start production shortly and its tools manufacturing division



has achieved a further improvement in production and quality. The company has entered into a technical collaboration agreement with an American firm for the manufacture of industrial knives.

Out of the gross profit of Rs 255.24 lakhs during 1973-74, the directors have provided Rs 15.29 lakhs for depreciation and Rs 2.10 lakhs for development rebate reserve. No provision has been made for tax liability estimated at Rs 159.30 lakhs. Taxes, when due, will be paid out of the general reserve to which a sum of Rs 2.39 crores is transferred. The proposed dividend will claim Rs 16.80 lakh.

Tata Power

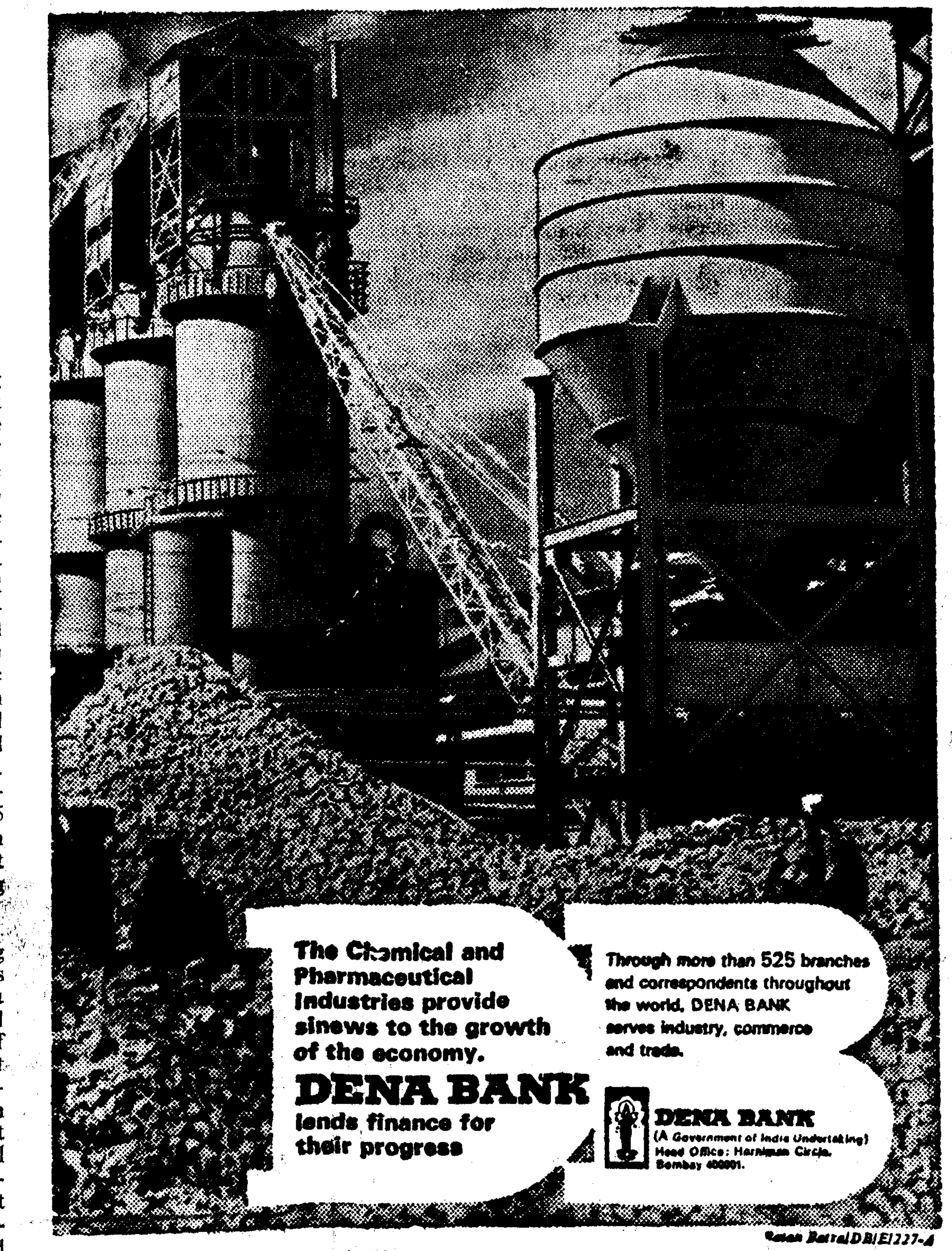
Mr Naval H. Tata, Chairman, the Tata Power Company Ltd. expressed grave concern at the annual general meeting held recently, regarding the problem of recurring power shortages throughout the country. The cumulative effect of the electric energy crisis on the economy of the country was too obvious to need a special mention, he added. To prevent an unprecedented crisis in the economy, a crash programme would be inevitable not only to commission the projects which had spilled over from the fourth Plan, but also to take suitable timely corrective action, at an expeditious pace, with regard to those projects which had been included in the fifth Plan. The country's installed generating capacity stood at 16.55 mkw at the end of the fourth Plan and it was intended that this should be doubled during the fifth Plan.

Mr Tata stated that during the past year the company's thermal station received a meagre 70,000 tonnes of coal against a promised supply of 175,000 tonnes. He hoped that coal rasings would be streamlined and transport system would be improved to meet massive requirements of coal for the country's future thermal generation. In the context of legislation governing electricity utilities Mr Tata indicated that the Electricity (Supply) Act should make ample provision for servicing of loans and borrowings, ploughing back of earnings for rehabilitation, modernisation and expansion, and deferred liability arising out of such modernisation and expansion.

He added that it would be tragic to disturb efficient units on the plea of termination of licences when they had the scope, capacity and expertise for expansion, to play their legitimate part in the national target of maximising generating needs. The extension of tenure of licences of such utilities must be ensured in advance as an incentive to their continued active participation in the much needed growth, he said.

Tensile Steel

During the year ended March 31, 1974, Tensile Steel Ltd. has recorded a drop in turnover from Rs 3.21 crores to Rs 3.07 crores. The gross profit has registered a fall of almost 50 per cent, from Rs 49.93 lakhs to Rs 25.82 lakhs. The



directors have proposed an equity dividend of Rs 3.50 per share against Rs 15 for the previous year. The production of pre-stressed concrete wire fell from 9,603 tonnes to 9,063 tonnes. The ban on exports has been removed and the company is trying to build up exports which are remunerative at present. The company expects to complete this year an expansion in the production capacity from 10,000 tonnes to 17,500 tonnes a year. Meanwhile it has received a letter of intent for the manufacture of 10,000 tonnes of stabilised wire a year.

Hindustan Everest

Hindustan Everest Tools Ltd., formerly known as Hindustan Dowidat Tools Ltd, has earned a gross profit of Rs 24.77 lakhs for 1973-74 as against is 16,797 lakhs in the previous year. The company has achieved an increase in the production by 16.8 per cent and in sales by 29.3 per cent despite shortages and escalation of costs of almost all inputs and heavy power disruptions. This level of performance was possible due to implementation of modern management techniques resulting in improvement in operational efficiency. In view of the dividend ordinance the directors have recommended a dividend of 8 per cent. The company's exports total Rs 120.07 lakhs against Rs 106.90 lakhs.

Larsen and Toubro

The directors of Larsen and Toubro Ltd have decided to issue rights shares of Rs 10 each at a premium of Rs 6 per share in the ratio of one share for every four shares held. The proceeds of the rights issue totalling Rs 2.38 crores will be utilised to meet a part of the finance for the company's expansion programme. After the rights issue, subject to sanction by the government, the company's equity capital will be increased to Rs 7.45 crores. Announcing the rights issue, the company's chairman, Mr H. Holck-Larsen, told sharesholders at the annual meeting in Bmobay recently that the company needed additional funds to finance its new project for the manufacture of hydraulic excavators at Bangalore and for expansion of facilities for the manufacture of paper machinery and other products. The Company's working so far in the current year is quite encouraging. Its sales during the first five months of this year (April to August) have totalled Rs 20.4 crores against Rs 11.7 crores in the corresponding period last year, an increase of 74 per cent. Its production has increased by 70 per cent to Rs 12.8 crores from Rs 7.6 crores.

Bharat Overseas Bank

Mrs Sushila Rohatgi, deputy minister for Finance recently inaugurated the New Delhi branch of Bharat Overseas Bank, the second branch in the country. Its first branch was opened in Madras in October last. The bank has other banks as its shareholders and has been set up with the idea of having a major portion of its operations outside the country. It came into being under a special scheme approved by the union government for the immediate purpose of taking over the Bangkok branch of Indian Overseas Bank as the continuance of the branch of a nationalised bank there was not in in keeping with the national policies of Thailand. The bank has plans to open branches in Bombay and Calcutta shortly. It is proposed to open a few branches abroad too. Mrs. Rohatgi hoped that the bank would make an important contribution to the promotion of India's international trade, particularly with its nieghbours in South-East Asia. Mr P. V. Sheshagiri, Chairman of the Bank, urged the government to allow small banks to pay additional interest so as to attract deposits.

Tube Investments

Tube Investments of India Ltd (TI), manufacturers of several popular brands of bicycles, are poised for an all-round expansion in their capacity for which they have finalised their plans. It was revealed recently that the present output of 500,000 bicycles would go up to 700,000 in two years. Similarly the production of steel tubes would be increased from 18,000 tonnes to 30,000 tonnes and cold rolled strips from 30,000 tonnes to 250,000 tonnes. They further disclosed that the output of industrial chains had just gone up from 1.5 million running feet to 2.8 million running feet and that the production of cycle chains from one million units to over two millon units. Further, the company had applied for doubling the production capacity of cycle lamps which was two lakhs presently. The company also hoped to be able to produce a 5-speed gear suitable for use in cycles.

New Issues

Incon (India) Limited is setting up a plant at Jaipur with US collaboration for the manufacture of carpets, decorative rugs, wall hangings, tapesteries of man-made fibres, including cellulose rayon, polypropylene and nylon. The plant will be the first of its kind in South-East Asia. The collaborators have agreed to take up 40 per cent of equity capital in addition to supply of know-how. They have also undertaken to help in the export of 60 per cent of the company's production. The foreign component of the machinery is Rs 15.88 lakhs and the indigenous Rs 7.55 lakhs.

The company will be entering the capital market shortly with a public issue of Rs 7.90 lakhs—Rs 4.02 lakhs in equity shares of Rs 10 each and Rs 3.88 lakhs in preference shares of Rs 100 each. The promoters have taken up equity shares of Rs 3·30 lakhs and preference shares of Rs 2 lakhs. Equity shares worth Rs 4.68 lakhs and preference shares worth Rs 12,000 have been reserved for the collaborators. The government of India has agreed to grant a licence for the import of polypropylene, the raw material, against exports. The company foresees no difficulty in selling the balance of 40 per cent of its production indigenously.

Universal Plast Ltd., which is setting up near Ghaziabad (UP), a Rs 142-lakh project for the manufacture of 1500 tonnes of PVC sheets and films per annum, will enter the market on September 24, with a public issue of Rs 36.80 lakhs in equity shares of Rs 10 each at par. The subscription list will close on October 5, or earliei but not before September 28. The project, which was already under-way was expected to start commercial production from January next. It has been indicated that the company would be able to pay a maiden dividend of 10 per cent for 1975. Against the actual production of 8,000 tonnes last year, the demand for PVC sheets and films (unsupported) would be about 14,000 tonnes per annum by 1975 and 25,000 tonnes by 1978. It has been stressed that this is the only project of its kind in northern India, and its entire production would be consumed in northern region, mostly in Delhi alone. To meet the problem of power shortage, the company has placed an order for a generator from GDR.

RECORDS AND STATISTICS

Index numbers of agricultural production in India—1972-73

THE OVERALL agricultural production registered a sharp decline in 1972-73 over its year ago level as measured by the index of agricultural production (with base, triennium ending 1961-62=100). The index of agricultural production at 118.5 per cent compared to the level of 130.4 in 1971-72. This decline was the second largest since the era of planning began in 1951-52, the first major decline being 16.7 per cent in the year 1965-66. Deficient and uneven rainfall during the *kharif* season and prevalence of long dry spell of wheather were the main factors behind this steep decline. Majority of the states had to face drought conditions, five of them severely.

Scarce rainfall

After two good years of harvest resulting in an increase of about seven per cent in each of the years, 1969-70 and 1970-71, the year 1971-72 witnessed a slight fall of 0.8 per cent in the index of agricultural production. The widespread deficiency in the rainfall in 1972-73, however, resulted in an accelerated fall in agricultural production in that year. Besides inadequate and eratic rainfall in several parts of country, there were also floods in the Ganga and the Brahmaputra plains and two successive tidal waves in Orissa which caused considerable damage to the standing crops. These adverse conditions resulted in a fall of 4.7 per cent and 5.8 per cent, respectively, in the area under crops and yield. To offset the shortfall in the *kharif* production, special measures were undertaken under the Emergency Agricultural Production Programme (EAPP) for increasing the production under *rabi* crops. The measures included raising the area under cultivation, especially under wheat and providing special assistance to state governments for extending irrigation facilities as also for increasing the supplies of fertilisers, seeds and pesticides.

Seriousness of efforts

The seriousness of the efforts to increase agricultural production may be seen from the provision in the central budget for short-term loans for agricultural inputs which was raised from Rs 60 crores to Rs 100 crores. However, an unbroken spell of drought in *rabi* jowar growing areas, occurrence of early hot winds (in February-March) and of rust in wheat areas and shortage of power for lift irrigation adversely affected the *rabi* foodgrains production. Even the production of wheat, which had registered a steady increase since 1967-68 after the introduction of high yielding varieties, declined by 5.6 per cent and its index of yield registered a decline of 9.1 per cent. This was in spite of an increase of 3.9 per cent in the index of area under wheat in 1972-73.

The year under review witnessed decline in the index of agricultural production of foodgrains as well as non-foodgrains. A decline of 9.7 per cent in the index of production of foodgrains, which incidentally accounts for about two-thirds of the total weight in the index, mainly contributed to the overall decline in the index of agricultural production. Comparatively, the fall in the index of non-foodgrains was only slightly lower at 8.0 per cent. Among foodgrains, the index of cereals decline by 9.3 per cent and that of pulses by 14.1 per cent All the crops under cereals, expecpt maize, contributed to the fall in the index of production of 'cereals' sub-group. In the case of maize, both its yield and the area under it, showed an increase during the year under review. The steep decline in the index of pulses was mainly due to a fall in the production of gram and 'other pulses'. The decline in the index of non-foodgrains by 8.0 per cent was mainly because of a fall in the output of oilseeds (—18.0 per cent) fibres (—15.2 per cent) and condiments and spices (—9.5 per cent).

TABLE I

Index Numbers of Agricultural Production

(Base: Triennium ending 1961-62=100)

	Index Numbers			Percentage annual variation		
	All crops	Food grains-	Non-food-grains	All crops	Food grains	Non-food-grains
1960-61	102.7	102.1	103.8	+8.9	+7.2	+12.0
1961-62	103.0	102.7	103.5	+0.5	+0.6	−0.3
1962-63	101.4	99.4	105.4	−1.6	−3.2	+1.8
1963-64	103.9	101.7	108.2	+2.5	+2.3	+2.7
1964-65	115.0	112.0	120.9	+10.7	+10.1	+11.7
1965-66	95.8	89.9	107.1	−16.7	−19.7	−11.4
1966-67	95.9	91.9	104.7	+0.1	+2.2	−3.2
1967-68	116.6	117.1	115.6	+21.6	+27.4	+11.5
1968-69	114.8	115.7	113.2	−1.5	−1.2	−2.1
1969-70	122.5	123.5	120.5	+6.7	+6.7	+6.4
1970-71	131.4	133.9	126.6	+7.3	+8.4	+5.1
1971-72	130.4	131.6	128.0	−0.8	−1.7	+1.1
1972-73	118.5	118.8	117.8	−9.1	−9.7	−8.0

TABLE II

Average Annual Percentage Variations in the Index of Agricultural Production

Period	Average annual percentage variations		
	All crops	Food-grains	Non food-grains
1951-52 to 1955-56	+4.3	+5.2	+2.7
1956-57 to 1960-71	+4.3	+4.0	+5.1
1961-62 to 1965-66	−1.0	−2.0	+0.9
1966-67 to 1968-69	+6.7	+9.5	+2.1
1969-70 to 1972-73	+1.0	+0.9	+1.2
1961-62 to 1972-73	+1.6	+1.9	+1.3
1951-52 to 1972-73	+2.8	+3.1	+2.5

Note: For the period 1950-51 to 1958-59, the original indicies with base 1949-50=100 shifted to the base for the triennium ending 1961-62=100 have been used.

Individual commodities which recorded significant decline in production indices during the year were groundnuts (—36.5 per cent), bajra (—28.7 per cent) and seasamum (—20.9 per cent). Cotton, jowar and chillies (dry) recorded decreases ranging from 15 per cent to 20 per cent in the index of production while the fall in tobacco, ragi and rice ranged between 10 per cent and 15 per cent. Commodities whose indices showed a substantial increase were coffee (+30.4 per cent), rapeseed and mustard (+29.3 per cent), maize (+21.7 per cent) and sugarcane (gur) (+8.7 per cent).

Fall in production

Table I shows the index numbers of agricultural production for all crops, foodgrains and non-foodgrains and percentage annual variations therein from 1960-61 to 1972-73. It may be seen that the decline in the index of agricultural production which was marginal in the previous year dipped further, showing a fall by 9.1 per cent during the year under review. After the steep decline of 19.7 per cent in 1965-66, foodgrains production index was generally going up till 1970-71 except for a slight decline in 1968-69. Thereafter it showed a fall by 1.7 per cent in 1971-72 and a further decline of 9.7 per cent in 1972-73 in sharp contrast to the upward movement of the index in the preceding two years. In the case of non-foodgrains also, the index during the year under review showed a decline by 8.0 per cent as against increase during the three preceding years.

The trends in the production indices of certain selected crops are discussed in the following paragraphs :

Foodgrains: The fall of 4.3 per cent in the index of area under crops mainly contributed to the decline of 9.7 per cent in the index of production of foodgrains. Among cereals, the index of production of rice at 113.3 recorded a significant decline of 10.3 per cent from its peak level attained in 1971-72. However, at this level the index was still higher than its level in 1966-67 which was the most recent bad year. The indices of area under crop and yield declined by about five per cent each during the year under review.

Decline in wheat

In the case of wheat, the index of production at 223.9 recorded a significant decline of 5.6 per cent during 1972-73. The index of area under crop increased by 3.9 per cent but the yield index declined significantly by 9.1 per cent. The area under crops in respect of all the coarse cereals except maize declined during the year under review; the fall in the case of jowar was steeper at 11.7 per cent, in spite of the crash programme to bring additional five lakh hectares of land under cultivation of *rabi* jowar. Similarly, there was an all-round decline in the index of yield of coarse cereals except maize. Production of bajra and small millets declined by 28.7 per cent and 11.8 per cent, respectively. Maize was the only cereal which showed an increase in production during the year under review with a substantial rise of 21.7 per cent due to an increase of about 21 per cent in its yield index.

The production index of pulses declined significantly during the year by 14.1 per cent mainly as a result of a fall in the index of area under crop by 7.9 per cent. Gram and 'other pulses' under this sub-group recorded decline in production, the decline in gram being 12.1 per cent. The fall in the production index of gram may be mainly attributed to a fall in the area under the crop by 12.3 per cent since there was improvement, though nominal, in the yield index. On the contrary, the increase of 3.8 per cent in production of tur was brought about by a rise of 4.5 per cent in the index of yield although the index of area under crop had shown a marginal decline.

Widespread drought

Non-foodgrains: The index of non-foodgrains at 117.8 also registered a significant decline by 8.0 per cent as against an increase of 1.1 per cent in 1971-72. This decline was due to a fall in both area under crop and yield, the indices of which declined by 6.3 per cent and 5.0 per cent, respectively. The sub-group 'oilseeds' recorded the sharpest decline of 18.0 per cent in production during the year under review The decline in the production of 'oilseeds' was mainly due to a fall in the output of groundnuts (accounting for about 50 per cent of the weight of the 'oilseeds' subgroup) by about 36 per cent—the index at 84.8 being the lowest since 1959-60. The fall in production of groundnuts is attributed to widespread drought in major groundnut producing states such as Gujarat, Mysore, Tamil Nadu and Andhra Pradesh. Among the oilseeds, only rapeseed and mustard recorded significant improvement in production by 29.3 per cent despite a fall in the area under crop because of an increase of 38.1 per cent in the yield index. All the other oilseeds, except safflower which recorded a decline in production index by about 40 per cent, showed a fall ranging from 10 per cent to 20 per cent in their production index.

Better yield

The 'fibres' sub.group also recorded substantial decline in production by 15.2 per cent. The fall in area under this subgroup by 2.4 per cent was not much but that in yield was quite notable (—10.9 per cent). This was in sharp contrast to the substantial increase of 33.5 per cent in production recorded by this sub-group in 1971-72. This improvement was as a result of a better yield, the index of which showed an increase of 29.4 per cent. The fall in the production of cotton by 16.4 per cent during the year under review was, to some extent, due to shrinkage in area which in turn may be attributable to unfavourable weather conditions at the time of sowing, but mostly due to decline in its yield (—15.3 per cent).

The yield index of cotton had shown a distinct improvement of 42.5 per cent resulting in an increase of 45.9 per cent in production in 1971-72. Bulk of the decline in production in 1972-73 which was registered by Gujarat, was mainly due to the lower yield caused by prolonged drought in the state from the middle of July 1972 onwards. The production of jute also declined by as much as 14 per cent. This was due to a fall in the area under cultivation (mainly in West Bengal) by about 14 per cent owing to severe drought that prevailed in almost all the jute-growing states. However, the decrease in production was offset, to some extent, by Bihar and Uttar Pradesh.

Improved plantation

'Plantation crops' was the only sub-group which showed an improvement in all respects, in terms of production, area under crops and yields during the year under review. All the plantation crops contributed to this improvement. The index of production of tea reached a new peak level of 154.8 during the year. The index of production of coffee increased by 30.4 per cent as against a sharp decline of 37.4 per cent in the previous year. The index of production of rubber had also shown a notable increase of 11.0 per cent due to improvement, both in the area under crop and in yield.

The decline by 9.5 per cent in the production index of 'condiments and spices' sub-group was mainly due to a fall in the index of chillies (dry) by 17.4 per cent. In spite of an increase in area under crop by 3 8 per cent, the production index of fruits and vegetables showed a decline of 4.6 per cent because of a fall in its yield index by 8.2 per cent.

The production index of sugarcane (gur) improved by 8.7 per cent due to increase in the area under crop during the current season owing to

favourable weather conditions at the time of sowing and also due to improved yield during the year under review.

Trends in growth: Average annual percentage variations in the indices during the three five-year Plan periods, three Annual Plans, the first four years of the fourth five-year Plan and for the periods 1961-62 to 1972-73 and 1951-52 to 1972-73 are presented in Table II. Over the two decades ending 1972-73, agricultural output has grown at the average annual rate of 2.8 per cent, and its components, viz., foodgrains and non-foodgrains, at the rate of 3.1 per cent and 2.5 per cent, respectively, more or less just off-setting the population growth rate.

Unfavourable weather

It may be seen that during the first two five-year Plan periods, the index of agricultural production for all crops had increased at a steady rate of 4.3 per cent per annum. However, because of unfavourable weather conditions in the country during 1962-63 and again in 1965-66, the trend was reversed during the third five-year Plan when the production index of foodgrains showed a decline by 2.0 per cent per annum, resulting in a fall of 1.0 per cent in the 'all crops' index. The index of non-foodgrains, however, had shown a marginal rise of about one per cent per annum during this period.

The average annual growth rate during the three Annual Plans (1966-67 to 1968-69) was 6.7 per cent for all crops. This remarkable growth rate during this period was solely due to an exceptional increase of 21.6 per cent in production in 1967-68. This increasing tempo was maintained during the first two years of the fourth five-year Plan. But thereafter it started declining, bringing down the average growth rate to a low level of one per cent during the first four years of the fourth Plan. The average annual increase in the production index during the period 1951-52 to 1972-73 works out to 2.8 per cent for all crops and 3.1 per cent and 2.5 per cent for foodgrains and non-foodgrains, respectively, while these retes for the period 1961-62 to 1972-73 work out to 1.6 per cent for all crops and 1.9 per cent and 1.3 per cent for foodgrains and non-foodgrains respectively.

Seasonal factors

Conclusion: As stated earlier, because of the drought conditions which prevailed in all parts of the country in 1972-73, the performance of agriculture in the year under review has turned out to be poor. Seasonal factors also rendered crash programmes for increasing agricultural production in *rabi* season ineffective. In spite of all efforts to increase production in *rabi* season of 1972-73, there was a fall of 10.0 per cent in the total *rabi* foodgrains production over the previous year. However, the level of index of agricultural production at 118.5 is still much higher when compared with that of 1965-66 and 1966-67 which were the worst years for Indian agriculture, although severity of the 1972-73 drought was perhaps comparable to that of 1965-66 and 1966-67. This was in evidence in the individual crops such as rice, wheat, ragi, etc., whose production was badly affected during 1972-73 but still its level was higher than that in 1965-66.

The average growth rate per annum during the last twenty two years works out to 2.8 per cent for all crops whereas it is only 1.6 per cent from beginning of the third Plan. The above review leads us to the conclusion that not only the amount but also the distribution and timeliness of the rainfall still remains the main determinant of the annual farm output, especially when nearly three-fourths of the farm-land in India is rainfed. Fortunately, according to all indications available till now, it appears that the agricultural output in 1973-74 is very likely to record a significant increase.

Annexure I

All India Final Estimates of Principal Crops, 1972-73.

Crop	Area ('000 hectares)		Production '000 tonnes)	
	1972-73 (final)	1971-72 (Revised)	1972-73 (Final)	1971-72 (Revised)
Foodgrains				
Rice	36,019 .2	37,757 .8	38,632 .8	43,068 .0
Jowar	14,810 .7	16,777 .0	6,442 .5	7,721 .9
Bajra	11,716 .0	11,773 .3	3,795 .2	5,319 .1
Maize	5,735 .5	5,665 .6	6,206 .0	5,100 .5
Ragi	2,286 .0	2,425 .0	1,913 .6	2,208 .5
Small Millets	4,715 .9	4,477 .3	1,473 .7	1,669 .4
Wheat	19,881 .2	19,138 .9	24,922 .6*	26,409 .9
Barley	2,405 .9	2,455 .3	2,326 .9	2,577 .0
Total Cereals	97,020 .4	100,472 .2	85,713 .3	94,074 .3
Gram	6,939 .5	7,912 .4	4,469 .0	5,080 .7
Tur	2,330 .2	2,345 .5	1,747 .5	1,683 .0
Other Kharif Pulses	6,180 .5	6,570 .5	1,181 .0	1,653 .0
Other Rabi Pulses	4,958 .5	5,322 .2	2,090 .4	2,676 .7
Total Pulses	20,408 .7	22,150 .6	9,487 .9	11,093 .4
Total Foodgrains	117,429 .1	122,622 .8	95,201 .2	105,167 .7
Oilseeds				
Groundnut (nuts in shell)	6,877 .3	7,510 .2	3,923 .8	6,180 .5
Castorseed	403 .2	453 .3	136 .3	154 .0
Sesamum	2,231 .7	2,391 .5	355 .4	449 .5
Rapeseed & Mustard	3,390 .1	3,613 .9	1,853 .2	1432.8
Linseed	1,740 .3	2,064 .4	439 .3	529 .5
Total five major oilseeds	14,642 .6	16,033 .3	6,708 .0	8,746 .3
Nigerseed	456 .8	495 .6	94 .6	115 .8
Saffiower	416 .8	597 .7	78 .9	130 .5
Cottonseed	—	—	1,980 .4	2,363 .4
Fibres				
Cotton (lint)	7,704 .0**	7,799 .7**	5,488 .6†	6,564 .0†
Cotton (kapas)	—	—	2,968 .3	3,545 .0
Jute	705 .5	815 .3	4,868 .7†	5,684 .3†
Mesta	288 .1	295 .7	1,162 .0†	1,150 .4†
Sannhemp (fibre)	137 .8	141 .2	49 .9	54 .8
Other Crops				
Sugarcane (gur)††	2,480 .6	2,390 .4	12,636 .2	11,626 .1
Ginger (dry)	22 .9	24 .6	32 .9	34 .7
Cardamom	76 .5	76 .8	3 .1	3 .6
Pepper (black)	118 .8	118 .6	26 .1	26 .2
Chillies (dry)	677 .4	753 .1	408 .0	493 .9
Tobacco	433 .9	458 .3	363 .6	418 .9
Potato	528 .0	491 .9	4,473 .1	4,825 .5
Guarseed@	1,162 .0	1,538 .6	398 .7	516 .9

†In thousand bales of 180 Kgs. each. ††Production in terms of cane was 123,667 .9 and 113,569 .5 thousand tonnes for 1972-73 and 1971-72, respectively.

**Area same as for cotton (lint). *Provisional and subject to revision. @Seed purposes only.

Source: Directorate of Economics and Statistics, Ministry of Agriculture, Government of India.

Annexure II

Index Numbers of Agricultural Production in India

(Triennium ending 1961-62=100)

Commodity/group	Weight	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73
Foodgrains														
Rice	34·80	101·8	104·6	98·2	108·9	115·7	90·0	89·6	110·7	116·5	118.5	123·8	126·3	113·3
Jowar	5·87	112·3	90·3	110·6	104·4	109·9	86·0	104·6	114.0	111·2	110·3	92·0	87·6	73·1
Bajra	2·53	94·4	103·9	113·7	111·4	129·8	107·8	128·4	149·0	109·2	153·0	230·6	152·8	109·0
Maize	2·40	98·8	102·5	110·9	109·8	112·0	115·8	117·5	150·5	133·5	132·9	175·3	119·4	145·3
Ragi	1·34	94·6	100·7	103·5	102·4	101·9	66·9	82·2	95·0	83·1	106·8	108·7	111·1	96·3
Small millets	1·00	98·1	100·1	88·8	98·2	95·9	75·9	72·7	93·2	88·1	84·6	97·1	81·5	71·9
Wheat	8·36	98·8	108·4	96·8	88·5	110·1	93·4	102·4	148·7	157·1	180·6	214·2	237·3	223·9**
Barley	1·59	96·9	109·6	84.2	70.9	86·9	82.1	80·9	120·7	83.3	93·5	95.8	88.7	80·1
Cereals	57·89	101·6	103·6	100·0	104·2	113·3	90·9	95·1	119·5	120·0	127·2	138·9	137·1	124·3
Gram	3·85	106·2	98·2	91·0	76·4	98·0	71·7	61·5	101·4	70·2	94·2	88·3	86·3	75·9
Tur.	1·25	121·0	79·8	91·4	91·4	79·7	100·0	65·2	100·5	101·3	106·3	108·7	97·1	100·8
Other pulses	2·87	97·8	101·4	102·6	93·8	106·0	89·0	80·3	98·0	95·8	96·0	105·6	96·6	73·0
Pulses	7·97	105·5	96·5	95·2	83·2	102·6	82·4	68·9	100·0	84·3	96·7	97·7	91·9	78·8
Foodgrains	65·86	102·1	102·7	99·4	101·7	112·0	89·9	91·9	117·1	115·7	123·5	133·9	131·6	118.8
Non-Foodgrains														
Groundnut	5·40	101·5	102·4	106·7	111·6	129·7	92·1	95.3	123·8	100·0	110·8	132·0	133·5	84·8
Sesamum	0·64	90·0	104·9	137·8	124·0	136·6	119·1	117·0	125·2	118·9	126·1	158·2	126·5	100·0
Rapeseed and Mustard	1·70	107·7	107·5	104·2	73·1	117·9	103·8	98·2	125·4	107·7	125·1	158·0	114·6	148·2
Linseed	0·51	91·2	106·6	99·1	87·4	114·0	76·5	60·0	101·1	76·0	108·2	109·3	122·2	101·4
Castorseed	0·12	96·9	98·2	90·2	92·8	93·8	70·9	73·7	81·4	77·7	82·6	91·4	103·4	91·5
Safflower	0·08	100·0	100·0	100·0	100·0	100·0	100·0	92·3	97·3	104·6	126·1	191·6	175·6	106·2
Nigersed	0·10	100·0	100·0	100·0	100·0	104·1	97·4	84·7	105·4	96·3	105·7	137·6	124·8	101·9
Coconut	1·81	100·4	97·1	107·6	102·7	107·3	107·1	110·4	113·1	117·9	124·5	129·1	129·4	129·4*
Cottonseed	1·08	119·1	102·9	117·7	122·9	129·0	104·1	116·3	126·9	119·2	121·9	104·6	152·5	127·8
Oilseeds	11·44	102·7	102·6	108·7	104·6	123·2	98·0	99·4	121·0	105·7	117·1	133·4	130·8	107·3
Cotton	3·27	119·1	102·9	117·7	122·9	129·0	104·1	113·0	123·9	116·9	119·4	102·2	149·1	124·7
Jute	1·34	82·8	126·3	109·0	121·7	121·4	89·6	107·3	126·6	58·7	113·2	99·1	114·1	97·7
Mesta	0·31	81·5	134·1	127·5	138·8	117·0	95·3	89·4	93·2	66·3	82·7	91·8	84·2	85·1
Sannhemp	0·12	96·6	103·3	94·6	91·0	96·5	68·1	68·9	85·9	81·2	80·6	78·1	65·9	60·0
Fibres	5·04	106·6	111·1	115·4	122·8	125·5	98·8	109·0	121·8	97·5	114·6	100·2	133·8	113·5
Tea	2·88	96·2	106·2	103·8	103·7	111·5	109·7	112·6	115·2	120·5	117·9	125·4	129·8	124·7
Coffee	0·27	100·4	93·9	96·8	104·1	109·6	114·9	141·2	103·2	132·3	114·5	198·5	124·3	162·1
Rubber	0·11	99·3	107·0	124·5	142·1	170·0	188·3	204·3	240·3	264·9	305·5	343·6	377·3	418·9
Plantation Crops	3·26	96·7	105·2	103·9	105·0	113·3	112·8	118·1	118·4	126·3	123·9	138·8	137·7	146·6
Pepper (black)	0·13	102·2	102·1	93·7	86·2	86·9	82·9	82·5	78·9	76·7	76·1	78·2	78·2	77·9
Chillies (dry)	1·51	108·0	98·7	107·5	123·9	120·3	92·2	105·9	126·8	100·9	100·0	131·7	125·0	103·3
Ginger (dry)	0·04	100·2	107·7	111·2	120·3	119·2	125·4	120·3	110·7	103·3	118·1	168·1	197·1	186·9
Turmeric	0·18	102·7	95·0	115·8	127·1	160·4	140·4	122·2	119·5	114·2	147·7	165·6	158·1	158·1*
Arecanuts	0·78	97·8	100·4	115·4	113·2	109·3	115·4	126·1	131·2	135·4	133·5	136·7	145·9	145·9*
Condiments and Spices	2·64	104·2	99·3	109·8	119·0	118·1	102·4	112·0	125·0	110·8	112·2	133·4	132·2	119·6
Potatoes	1·22	102·5	92·5	120·2	92·6	128·7	145·5	125·7	151·1	168·7	139·7	171·6	172·3	159·7*
Bananas	0·93	99·8	101·8	108·1	113·8	117·4	117·6	122·7	115·2	112·4	114·1	104·2	102·6	102·6*
Cashewnuts	0·17	102·5	102·8	113·1	115·6	123·8	127·4	134·2	141·5	149·0	157·8	157·8*	157·8*	157·8*
Fruits and Vegetables	2·32	101·4	97·0	114·8	102·8	123·8	133·0	125·1	136·0	144·7	130·8	143·6	143·3	136·7
Sugarcane (gur)	7·79	108·1	102·0	89·6	101·4	118·3	121·0	90·0	92·7	121·5	130·6	122·3	109·6	119·1
Tobacco	1·37	97·7	108·8	110·9	117·0	115·7	95·3	114·9	119·9	117·4	109·6	117·7	136·2	118·2
Guarseed	0·28	100·0	100·0	100·0	106·4	127·3	66·2	93·4	114·6	54·5	86·7	137·2	108·9	184·0
Miscellaneous Crops	9·44	106·4	102·9	93·0	103·8	118·2	115·6	93·7	97·3	118·9	126·3	122·1	113·4	117·9
Non-Foodgrains	34·14	103·8	103·5	105·4	108·2	120·9	107·1	103·7	115·6	113·2	120·5	126·6	128·0	117·8
All Crops	100·00	102·7	103·0	101·4	103·9	115·0	95·8	95·9	116·6	114·8	122·5	131·4	130·4	118·5

NOTE: Indices for the years 1966-67 to 1972-73 are subject to revision.

* Previous year's data repeated. **Provisional. **Source:** Directorate of Economics and Statistics, Ministry of Agriculture, Government of India.

Courtesy: Statistical Intelligence Division of the Department of Statistics, Reserve Bank of India.

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FAITH
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Enough is enough

PERHAPS THE most significant part of the terms of reference of the Bhargava Commission on the sugar industry was the central government's request to it that it should make suggestions for the rational and efficient organization of this industry. In the political context in which this commission was appointed it was clear that what was intended was that it should give its opinion on the merits of the demand in certain quarters that the sugar industry should be nationalized. Although the government had asked for the commission's views on this controversial issue, it could hardly have expected a unanimous recommendation or proposal. Given the composition of the commission, its collective mind just could not have collected itself sufficiently to produce a consensus.

In the event, Mr Bhargava and his colleagues found themselves splitting equally on this question, with five of the ten members favouring nationalization. The chairman himself did not walk into the 'ayes' lobby, but this by itself need not be given any special weight. What matters is that he and four other members of the commission were firmly opposed to the drastic change in *status quo* which nationalization implied. This, some of us would certainly think, is sufficient reason for the government not even considering seriously the question of nationalization on the basis of this commission's report or indeed on any other basis.

This does not mean that we are suggesting that the sugar industry is altogether in a healthy state. Indeed there are very few industries, especially among the older ones, which are not deficient in one way or the other. What is peculiar to the sugar industry is that for years now its performance has been fiercely criticized and frequently blamed although not always with sufficient justification. Here a point which is often forgotten by the critics is that, even more than the cotton textile industry, the sugar industry has been continuously controlled by the government and, if there are faults to be found in its functioning, government policies, such as they have been for this industry, are *prima facie* at least partly responsible.

In any case, although the commission is equally divided on nationalization as a remedy for such ills as this industry may be afflicted with, its members are agreed that government intervention is required to set matters right. The chairman and the four members who go along with him believe that the state taking over what they describe as "sick mills" is definitely called for. They have defined their concept of "sick mills" by mentioning what in their view are three causes of sickness: inadequate and unsatisfactory supply of cane coupled with deteriorating quality; financial mismanagement or even malpractices; and poor condition of plant and machinery due to lack of proper maintenance. Quoting the analogy of the cotton textile industry, where the central government has set up an autonomous corporation for taking over and running units which are considered to have been unsatisfactorily managed, the commission is in favour of some such arrangement being also followed for the purpose of rehabilitating losing or otherwise mismanaged or inefficient concerns in the sugar industry.

It is worth noting that the chairman and the four members associated with him have emphasized the importance of a careful and highly selective approach being adopted in identifying sick mills and taking them over. This circumspection is certainly in their favour. Addressing itself to the question whether there could be justification for the state taking over mismanaged or losing mills only, while permitting the good ones to continue under the existing ownership and management, these five members state that taking over deficient mills is being suggested only in those cases where change of ownership or management is found to be essential, based on the record of their past performance. Taking over of such factories, whose number is bound to be limited, will not in their opinion pose a difficult problem for the go

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vernment and it may be possible for it to find the limited number of good administrators as well as funds to run these factories successfully in the public sector. Reasonable as this approach may seem on its own terms, it has not been demonstrated even in the case of the sick textile mills taken over and managed in the public sector that this arrangement necessarily ensures the rehabilitation of the concerns taken over or results in the best possible use of public funds or other resources.

Indeed the main argument against the "sick mills" concept, whether as practised in the case of the textile industry or as recommended by the chairman and four of the remaining nine members of the Bhargava Commission for adoption in the case of the sugar industry, must be that it is not abnormal in any industry for individual units to become economically and financially unviable, in which case public interest is probably best served by letting normal commercial considerations to become operative. If this were permitted, there is no reason why concerns, which could be rehabilitated or restored to profitable functioning, will not attract the attention or ministrations of private managements in the industry. It is possible that in such a situation some sick mills may not find a buyer, but this would most probably be a reliable indication that investment in rescue or relief operations in such cases would be wasteful. It may be conceded that there could be some dislocation in employment but it has never been very satisfactorily proved that this would be an extensive or enduring injury.

Nevertheless, given the political atmosphere in the country, a scheme of partial nationalization, confined extremely selectively to the 'sick mills' concept may be a practical compromise provided in every case an effort is first made to find out whether managements in the private sector are willing to acquire and operate the sick mill concerned. Also desirable is the further precaution that, where a careful study has shown that a sugar factory has become uneconomic because of its poverty in respect of its raw material, namely cane, no attempt should be made to keep it artificially alive unless there are reasonable prospects of cane cultivation being revived and promoted to a satisfactory level in its neighbourhood. Finally it seems to us that this issue of sick sugar mills is best dealt with by state governments with precise reference to local problems and needs. Already in the public sector state governments have assumed responsibility for running some sugar mills and there does not seem to be any reason why the central government should assume any direct responsibility by setting up a national agency for dealing with sick sugar mills. The analogy of the sick mills in the textile industry is not conclusive. As a matter of fact, bad precedents do not deserve to be flattered by imitation.

There was perhaps never any real danger that the sugar industry would be nationalized wholesale. All the same, a politically motivated and highly artificial agitation has been kept going especially in UP. Now that the equally divided Bhargava Commission has failed to provide any justification for the violent upsetting of the *status quo* but has on the other hand succeeded in exposing the doctrinaire nature of the demand for nationalization, the central government should not lose time in categorically rejecting nationalization as a general policy for the sugar industry. As for the selective taking over of 'sick' sugar factories, the best approach would be for the central government to make it clear, that any state government interested in the proposition is free to follow its counsel. This is the only way the political heat can be taken out of this issue and it will not be too early for the minister for Food and Agriculture to go before parliament in the opening week of the next session and lay down the government's policy on the ownership or management of the sugar industry in these terms. It is now becoming increasingly clear that production and productivity in the sugar industry must improve substantially in the shortest possible time if the country is to exploit fully the export potential in this commodity while at the same time taking care of the reasonable consumption needs of it own people. Where sugar politics is concerned, the government must now at least be prepared to say that enough is enough.

Banking in reverse gear

No attempt has been made since the nationalisation of 14 major banks in 1969 to find out how concepts relating to development of banking have changed and it is taken for granted that the constituents of the lending institutions can be asked to bear additional burden for meeting the losses of new branches and an evergrowing salary bill. There has no doubt been a phenomenal growth in deposits of scheduled commercial banks and their ratio to notes in circulation has risen impressively to over 180 per cent from only about 60 per cent in the mid-fifties.

The monetisation of the economy has of course taken place at a faster rate after the mid-sixties and it is now possible to proceed on the assumption that the annual additions to deposits will be at the rate of 20 per cent and with proper management of available resources the needs of all customers can be equitably met. The stresses and strains created through the enunciation of new policies in respect of the disposition of bank funds and the complications arising out of an assertion of inflationery pressures have placed bankers in an awkward situation and it has been necessary at particular stages to raise the credit deposit ratio unduly and even borrow heavily from the Reserve Bank for meeting immediate commitments.

It must be said however that the squeeze witnessed in the first year after nationalisation was due to efforts to expand credit faster than additions to deposits with a grant of liberal loans to borrowers in the priority sectors and the position got corrected with an exhaustion of the initial momentum and faster additions to deposits. There was in fact a sudden relieving of pressure on the banking system after 1971 and funds were going abegging with banks competing to secure available business and the remunerative employment for their own resources. The situation, however, vastly

changed since the last quarter of 1973 and those institutions having a low credit deposit ratio could reap a rich harvest in 1973 out of a scramble for available funds from all classes of borrowers. No atisfactory explanation has been forthoming so far about why there was a ig increase in advances between Septemer 1972 and September 1973 even when nflationary pressures were not so acutely elt as now and whether peculiar forces vere not in operation. There is reason to elieve that there were shifts in the olicies of public sector undertakings in espect of the method of financing their vorking capital requirements and that hey were responsible for a major oneime adjustment designed to reduce depenlence on the government for funds.

As soon as this process was nearing completion the effects of imported inflaion and a sharp rise in internal prices were keenly felt and up to June this year member banks have been obliged to borrow heavily from the Reserve Bank against refinance facilities and under the bill market scheme in order to grant loans even on a restricted basis and observe also the statutory requirements relating to the maintenance of higher cash reserve and liquidity ratios. There can be genuine difference of opinion about the manner in which monetary and credit policies have been administered since May last year especially as the Reserve Bank has not adopted a logical approach and the attempt to accord preferential treatment to the requirements of small borrowers and the issue of loans on behalf of the central and state governments on an extremely cheap basis in relation to the prevailing structure of interest rates have resulted in an undue increase in lending rates on advances to industry and trade.

These developments explain why the major nationalised banks and other institutions did not increase their net earnings in 1973 in spite of a phenomenal growth in advances and a big rise in gross incomes. The central exchequer has in fact received a smaller amount of Rs 3.53 crores as its share of profits of 14 nationalised banks against Rs 4.18 crores in 1972 and Rs 4.43 crores in 1971. The gross income on the other hand spurted to Rs 489 crores from Rs 388 crores and Rs 326 crores respectively. It has not been indicated how the bigger rise in interest paid on deposits and borrowings to Rs 258 crores from Rs 197 crores and Rs 163 crores in the two previous years took place. There was of course a slight upward adjustment in interest rates on deposits along with an increase in the proportion of time liabilities to the total. But there should have been a significant increase in interest charges on account of borrowings from outside agencies to Rs 331 crores from Rs 101 crores. The salary bill also has jumped to Rs 158 crores from Rs 128 crores in 1972 and Rs 110 crores in 1971.

The net profit after taxation and before provision of bonus to employees was therefore not much higher at Rs 19.27 crores against Rs 17.63 crores. It must also be mentioned that the net earnings for the previous year were depressed because of excess liquidity of the banking system for most part of the year, the profits for 1971 being even marginally higher at Rs 17.63 crores. The provision for bonus however was much larger at Rs 11.78 crores against Rs 10.18 crores and Rs 9.69 crores. As there was also an increase in allocations to Reserve Funds to Rs 3.80 crores from Rs 3.21 crores, the centre's share of profits was lower than even in 1971, as stated above. Actually, the transfers to reserves in 1971 were larger than even in 1973 with a lower level of earnings. Nine major banks have reduced their contribution to the centre in 1973 and the marginal increases in the contributions of other five banks could not prevent a net decline in the total amount received as share of profits from these banks. It may not be surprising if there is a further decline in the profits received in this manner in 1974 as another complication has been introduced by the government with a levy of seven per cent on the gross income realised by banks on advances excluding inter-bank lending.

The further rise in deposit rates after the bank rate was increased in July, costlier refinance facilities and a higher liquidity ratio have compelled banks to raise again interest rates especially as the cash reserve ratio also is still being maintained at five per cent against the normal three per cent. It has to be examined at this stage how there can be a streamlining of costs of banking services and whether a different policy can be pursued in respect of the amortisation of the losses incurred on the running of new branches. The credit institutions of course are scared over the unsatisfied demand for funds even after a steep hike in lending rates. It is of course overlooked that the situation in

Eastern Economist 30 Years Ago

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Finally, what is the objective of planning? What are or should be the methods of realising our ends? The objective of planning is not necessarily to bring about socialism. Socialism, capitalism, communism or any other ism is just a means to an end. The end is the welfare of the people. If capitalism is sought to be replaced it is because of its defects and shortcomings. But socialism by itself may or may not achieve the end. As realists we have to devise a machinery which will be free from the known evils of present day capitalism without bringing other evils in its train. The issue that is often presented to the country is capitalism VERSUS socialism. That is not the real issue at all. Indeed no one form of organization can ever fit all the facts all the time or be useful in all spheres of economic activity. Society consists of human individuals having free will, initiative and enterprise on the one hand and is also composed of masses of people having common feelings and emotions behaving as a crowd. There is and ought to be therefore place both for individual freedom and enterprise and collectivism. The seeming contradiction is based on ignorance of the very fundamentals of society. Even in the most individualistic economic order like that of USA a large element of collectivism is being introduced. But even Bolshevik Russia allowed a fragment of private economic activity. Modern economic conditions do require greater centralization and coordination; in other words central control and direction are indicated. Planning means precisely that more of central direction and conscious purpose. This direction should be pointed towards the goa of welfare of the masses of the population; no of any particular class or section but of the entir community.

1972-74 has developed in an unexpected manner and there will be an easing of pressure on the banking system as happened in 1971.

Some critics may be quick to point out that there are no indications of an abatement of inflationary pressures and it will be wrong to expect that there will be a repetition of the happenings of 1971-72 at least on a lower key. Even granting that the pace of rise in internal prices will slow down only after some time there are definite indications to suggest that the inflation in the value of inventories due to costlier imports will not continue to be in evidence and by this time next year the situation will have been completely brought under control. It has therefore become necessary to find out how high interest rates on advances to industry and trade have had a penalising effect and added to inflationary pressures, and whether it will not be desirable to have physical controls over the grant of loans instead of trying to derive sadistic comfort through the charging of 18 per cent even on secured loans and the maintenance of inter-bank call rates of 12 to 15 per cent even during the height of the so-called slack season. The Reserve Bank may not of course be readily inclined to reverse its dearer money policy as the central government has yet to get a grip on the inflationary situation. This cannot however be an excuse for the Reserve Bank not administering more meaningfully its monetary and credit policies and for its failure to evolve a rationally integrated structure of interest rates.

Killing carpet backing?

THE INDIAN Jute Mills Association has expressed satisfaction with the statement made in the Lok Sabha on August 19 by Prof. Chattopadhyaya, the Commerce minister, in which he had clarified the government's policy on the export duty on jute goods. The association has observed that this statement marks "a refreshing departure in its clear recognition of the realities governing the industry's overseas sales of jute manufactures". But, in fact, did the Commerce minister say anything new in regard to the government policy towards export duty? He only clarified that it was the government's policy to review the export duties constantly and to adjust them in response to the changing circumstances. But the government's revision of these levies has seldom been made at the right time and in the right manner. As a result, on many occasions in the past, export duty had acted as an incentive to our competitors. Even at present the export duty especially on carpet backing seems to be too heavy. Prof. Chattopadhyaya admitted in the Lok Sabha that "even with the higher prices of oil and oil products, synthetic substitutes will continue to be priced well below jute goods and will erode the hard-earned markets for jute goods". Nevertheless the government does not seem to see anything inconsistent in keeping the export duty at Rs 650 per tonne on primary backing and Rs 750 per tonne on secondary backing.

The price of carpet backing, which was kept at Rs 4550 per tonne during the whole of 1973, was raised to Rs 5000 per tonne in January this year in order to increase the export earnings. At present, the price is Rs 5200 per tonne. But the industry contends that this price is not at all remunerative and, in fact, a disincentive to production. The monthly average production of carpet backing in the last quarter of 1973 was 17,600 tonnes but it averaged only 12,500 tonnes between April and July 1974. The shipment of carpet backing was of the order of 21,000 tonnes per month during October-December 1973 but during the current year it amounted only to 14,400 tonnes in April, 10,800 tonnes in May and 11,100 tonnes in June.

It is feared that the fixation of the carpet backing price at the present level may result in the larger diversion of the industry's production to hessian in order to avoid loss. The government therefore should consider whether it is desirable in the country's interest to discourage the production and export of carpet backing which has been the biggest single dollar earner, accounting for about Rs 100 crores per year. It is also relevant to draw attention to the steadily declining trend in jute's share in backing tufted carpets from 81 per cent in primary and 76 per cent in secondary in 1968-69 to 28.7 per cent and 61.4 per cent in the first quarter of 1974 and to 30.7 per cent and 64.1 per cent in the fourth quarter of 1973, respectively. The IJMA has said that faulty pricing and fiscal policy is "killing" carpet backing. This expression perhaps may seem to exaggerate the situation but surely New Delhi cannot afford to remain complacent in the face of the downward trend in the production and export of carpet backing.

Prof. Chattopadhyaya referred to the "disproportionate profits" earned by the jute industry. This may give the impression that the financial position of the jute mills has been quite comfortable. On the other hand, mills have been facing serious difficulties due to various reasons. The acute power crisis had severely strained the jute industry's finances. Lately, however, the power situation has improved and the government has also permitted the jute mills to install captive power plants. The decision, though belated, should enable the industry to increase its production substantially. The power rationing scheme has reduced the industry's production by about 12 per cent to about 95,000 tonnes a month by forcing it to work five days a week. But it remains to be seen how soon the mills will be able to secure their own generators and the power supply will improve to such an extent as to facilitate their working for seven days in the week.

Meanwhile, the sharp decline in the output of raw jute has been causing concern to the industry. The jute crop during this year is estimated at only 4.5 to five million bales against nearly eight million bales in the last year. The decline is attributed to the floods and the diversion of acreage to paddy because of its more attractive price. The mills require about 7.2 million bales of raw jute to ensure full production. It seems doubtful if this quantity will be readily available especially in the context of the government's anxiety to step up the export of raw jute. In 1973-74 our export of raw jute reached a record level of 614,000 bales but the Indian Jute Mills Association has urged that "all Indian export of raw jute must be stopped forthwith and all export contracts already entered into but against which shipments are outstanding must be countermanded in the present emergency".

It has also suggested that as much jute as possible from Bangladesh against contracts concluded under the Limited Trade and Payments Agreement should be imported. It seems strange that at a time when the jute industry and the government should work in complete understanding with a view to maximising the earnings of foreign exchange, differences should arise between them even in the matter of ensuring the adequate availability of raw jute. If, as claimed by the industry, there is going to be a serious shortage of raw jute in the current year not only in India but also in Bangladesh and Thailand, New Delhi should certainly exercise caution in permitting the export of fibre and should also build up an adequate buffer stock so that the mills can plan their programmes of production and export with confidence.

While the industry is facing the prospect of raw jute prices going up on account of the shortfall in production, it is also confronted with financial difficulties. The industry's credit requirements have been estimated at Rs 189 crores but it is stated that the Reserve Bank's squeeze has been making it increasingly difficult to secure its requirements of finance. The IJMA has suggested immediate reduction of all margins on bank advances from 35 per cent to 10 per cent in respect of raw jute, finished goods, and goods-in-process and the defreezing of cash credit accounts; and has also urged that banks should continue to allow credit to the jute mills according to their needs of the fibre and provide additional funds for working capital.

The Reserve Bank's anxiety to restrain credit to fight inflation is understandable but in view of the jute industry's crucial role in the country's foreign trade, its credit needs should be given special consideration so that its competitive strength is not weakened due to the paucity of timely and adequate finance. It is also necessary to offer realistic prices to the industry for its supplies of B-Twill and DW flour bags to the Directorate-General of Supplies. It is estimated that the difference between the government's price and the market quotations went up to Rs 1450 per tonne in April 1974 from only Rs 110 a year earlier, and the mills are said to have lost about Rs 5½ crores since April 1973 on these transactions.

The jute industry is being mulcted not only by the centre but also by the government of West Bengal. Under the West Bengal Taxation Laws (Second Amendment) Act, 1974, the rate of the entry tax on raw jute has been raised with effect from August 1, from one rupee to six rupees per bale or nearly 500 per cent. It is calculated that this tax will raise the industry's jute cost to Rs 60.30 per tonne in West Bengal. The fact that nearly 90 per cent of the country's jute industry is located in West Bengal, that it contributes substantially to the state's employment and that it is therefore essential not to cripple its capacity in any manner does not appear to have been appreciated by the state government. Prof. Chattopadhyaya said in his statement in the Lok Sabha on August 19 that *"in the long run, it is obviously in our interest that the competitiveness of jute goods in international markets is maintained". But is this not in the short-run as well?*

FROM THE CAPITAL'S CORRIDORS

V. Balasubramanian

Where Is He? • More Mysteries • Chattopadhyaya on Tight Rope • Dikshit's Difficulty with CBI • Mrs Gandhi Does a Crossword Puzzle • Mishra and His Paper Boat

WHO OR what is he? What he is the CBI inquiry is hopefully expected to discover. About who he is there seem to be at least two views. The telephone directory gives his name as 'Tulmohan Ram' but Mr Atal Behari Vajpai, speaking in the Lok Sabha, made it sound like 'Tul Mohan Ram'. The way he split the first name right through its phonetic middle somehow made it all sound much more impressive. A mere 'Tulmohan Ram' can hardly be conceived of as the central figure of a major political scandal, but 'Tul Mohan Ram', as emphatically named by Mr Vajpai, easily becomes a much more credible figure of mystery if not mayhem.

annoying affair

Mysteries, of course, there are in plenty in the import licence affair which may be causing some annoyance to the prime minister and perhaps somewhat more serious discomfort to other assorted ministers, politicians and parliamentarians including, presumably, Mr L.N. Mishra. Mystery number one, as everyone would readily see, is, apart from the who or what Mr Tul Mohan Ram may be,—which was the question I raised at the beginning—where indeed is Mr Tul Mohan Ram? Going by what is on record, the last person or persons who has admitted having seen and spoken to Mr Tul Mohan Ram is or are some unnamed official or officials of the Central Bureau of Investigation. Everybody else is professing the most complete ignorance of the whereabouts of Mr Tul Mohan Ram and so far as these people are concerned, the earth might have swallowed this particular member of the Lok Sabha without leaving any trace at all of his earlier earthly existence.

'curiouser and curiouser'

The prime minister, who is the leader of the Congress party in parliament, of which Mr Tul Mohan Ram is a member, esteemed or otherwise, the Home minister, Mr Uma Shankar Dikshit, who has assumed vicarious responsibility for the CBI inquiry, the Commerce minister, Professor D.P. Chattopadhyaya, who has been put on the mat over the import licence in which Mr Tul Mohan Ram has been prominently featured, and Mr L.N. Mishra who has been put in the dock during the debates in the two houses of parliament for his alleged association with Mr Tul Mohan Ram, have all shown individually and collectively a total reluctance to concede that they have ever breathed the air which Mr Tul Mohan Ram has also breathed. At this point, Alice would certainly have said that it is all getting "curiouser and curiouser."

For instance, seeing that Mr Tul Mohan Ram's name led all the rest in the memorandum submitted to the ministry of Foreign Trade—as it then was—over the names (for obvious reasons I do not say 'signatures') of certain members of the Lok Sabha, Prof. D.P. Chattopadhyaya who, as Commerce minister, had to bestow his official attention on this memorandum at one stage or another, should normally have contacted Mr Tul Mohan Ram first when he went about verifying the authenticity of the memorandum. It is not at all clear why Prof. Chattopadhyaya should have found it impossible to locate Mr Tul Mohan Ram or contact him considering that Mr Tul Mohan Ram is a member of the same party. Again, how could it be that Mr L.N. Mishra, even after a spate of allegations had been made about what was described as a special relationship between him and Mr Tul Mohan Ram, did not think it necessary or desirable to find him and have it out with him so that both he and Mr Tul Mohan Ram could have gone before the Lok Sabha and given their version or versions of the relations between them?

highly suspicious

Again, how was it that the Home minister, neck-deep in the politics of his party, fought shy of getting hold of Mr Tul Mohan Ram and producing him in the Lok Sabha so that he could clear, if he could, the name of his party and perhaps his own name too? Strangest of all, why should the leader of the party, Mrs Indira Gandhi, have been so reluctant to summon Mr Tul Mohan Ram and confront him with the things that were being said about him and also about others alleged to be associated with him in ways which might not bear scrutiny? It seems to me that the failure of all these estemable people to meet Mr Tul Mohan Ram face to face and persuade him to go to the Lok Sabha and say what he knows or what he wishes to say, is highly suspicious and must cast doubt on the *bona fides* of the ruling party and the central government in this matter. After all, it is a very ordinary and regular practice for an MP, on whose character or conduct aspersions have been cast in parliament, to take the earliest opportunity of making a statement of personal explanation to his peers. It is also normal for the leadership of the party, to which the MP may belong, to secure his attendance in the house and ensure that he makes this statement, so that nothing which tends to besmirch the honour or integrity not only of the individual member but also the party to which he belongs, goes without being challenged or rebutted.

Now we come to the next mystery which has not attracted due attention either in the course of the parliamentary debates or in the press. In the course of his reply to the debate in the Rajya Sahba on the import licences issue, Mr Uma Shankar Dikshit said very casually that the Commerce ministry had difficulties in linking the *Blitz* story, which started it all, with this particular import licences case because some of the details given in the *Blitz* report seemed to apply also to another case of issue of import licences where again a representation had been received from MPs. I for one would certainly like to know about that other application as well. It is obviously important for parliament and the people to learn whether all or some or any of the MPs, whose names figure in the Tul Mohan Ram memorandum, have their names also in the other memorandum. In particular, does Mr Tul Mohan Ram's signature also appear in that representation?

missed opportunity

It should be useful again for the public to know what this representation was and how it was disposed of by the ministry of Commerce. I do not know whether Mr Dikshit was aware of the significance of what he was saying about two applications sharing some of the mechanical details given in the *Blitz* report. In any case, the members of the Rajya Sabha, especially those on the treasury benches certainly seem to have missed the opportunity of probing into yet another possible mystery of more than 20 members of parliament getting together to see that justice is done to certain applicants for import licences.

The next mystery relates to the intriguing procedure adopted for establishing or at least stating that, except Mr Tul Mohan Ram's, the other signatures had been forged. For one thing, since Prof D. P. Chattopadhyaya was aware of the fact that a CBI inquiry was in progress, why did he take it upon himself at all to accept the suggestion that he should verify from the MPs named whether they had really signed the memorandum? It would not only have been in order for him to say that he should not be expected to undertake this responsibility at that stage, but propriety demanded that he should have said so.

personal explanation

Again, the MPs concerned were certainly entitled to go before the Lok Sabha of which they were members and, offering personal explanations, state whatever they wanted to—which, indeed, they did. But, then, neither these MPs nor any other member or members, nor the leadership of the ruling party to which these members belonged, thought it desirable to join issue with such of the opposition members as were insisting that certain signatures, in addition to Mr Tul Mohan Ram's, were also genuine. One would have expected that those who made these allegations would have been challenged by the treasury benches to name those MPs who were being accused of disowning their signatures and yet, at no stage, was this necessary demand made at all.

The debates in the two houses revolved round the question whether a parliamentary committee should be asked to probe the matter in spite of the fact that a criminal case had been registered and the CBI was already carrying out the investigation. Normally, where it is claimed that there is *prima facie* evidence of criminal offences having been committed, the procedure adopted by the government should be acceptable to all concerned. On this occasion, however, there are certain complications which could create a genuine misgiving whether the needs of justice would be served by a CBI inquiry. For one thing, the name of a cabinet minister—Mr L. N. Mishra—has been dragged into the affair in the course of the debates in the Lok Sabha and the Rajya Sabha.

This apart, for some time now, various allegations and charges are being continuously levelled against Mr Mishra not only by opposition spokesmen but also by some members of the ruling party. The prime minister has publicly stated that she regards this as a politically motivated campaign of vilification and has even gone so far as to suggest that the ultimate or ulterior aim of this campaign is to 'get' her and not merely Mr Mishra. In the circumstances, although the Home minister has been repeatedly declaring that the CBI has full freedom to pursue the investigation wherever it may lead it, not only opposition politicians but also a much wider public may continue to doubt that the CBI may not actually be able to function in this case as a wholly free agency. This is a question which cannot be answered one way or the other with any finality; and given the widespread conviction in the country that there is corruption in government and in high places, an investigative agency functioning in a department directly under the charge of the prime minister is bound to continue to have a credibility problem where ministers or other prominent politicians of the ruling party are alleged to be involved.

central weakness

This does not mean, however, that a parliamentary probe is practicable or will necessarily serve the ends of justice and the public interest. The central weakness of the opposition demand for such a probe was that its spokesmen made it clear through their speeches in the two houses that their real target was Mr L.N. Mishra and that they were almost wholly interested in a fishing expedition which could possibly be of help to them in discovering evidence of wrong doing on his part which would make it impossible for him to remain in office. Although quite few opposition speeches sounded properl virtuous about the need for justice bein done to the members of parliament wh had said that their signatures had bee forged and were profuse with high-minded eloquence about the fair name of parliament being rehabilitated and public confidence in the integrity of its members being restored, it was quite clear that, just as the treasury benches were being prompted by considerations of self-preservation in resisting a probe by a parliamentary committee, the opposition groups were being tempted by the political dividends which such a probe could yield to them.

In these circumstances it was not surprising that the debates in the two houses had an air of unreality about them. This was accentuated by the fact that, although the ruling party had quite obviously dragooned such of its members as were unwilling in varying degrees to toe the party-line, the party fielded in the debates only those who would justify the government's rejection of a parliamentary probe. Nevertheless, some reasonably solid and interesting, and many forceful, speeches were heard from both sides of the house both in the Lok Sabha and the Rajya Sabha.

eloquence galore

In the Lok Sabha, Mr Atal Bihari Vajpai was, if not at his eloquent best, very nearly so. Two other opposition leaders, Mr S.N. Mishra and Mr Era Sezhiyan, made characteristically solid contributions. From the ruling party Mr Chandrajit Yadav emerged as a fairly persuasive pleader of the government's line. He put his case as well as anybody could have done. Mr B.R. Bhagat's was another extremely useful contribution from the point of view of the treasury benches.

In the Rajya Sabha Mr Bhupesh Gupta, who had moved the motion for inquiry by a joint committee of parliament, reserved his fire for his reply to the debate. When he did get on to the job, he let off several broadsides with his usual elan and also with his equally characteristic indifference to marksmanship. It must be said to his credit, however, that he was not unduly vituperative; Mr Bhupesh Gupta had chosen this occasion to speak more in sorrow than in anger. It was left to Mr Prakash Vir Shastri to make a positive contribution from the opposition benches. He suggested that even if a parliamentary probe was to be ruled out, at least a commission of inquiry by a judge of the Supreme Court was indicated if justice were to be seen to be done.

The Commerce minister, Prof. Chattopadhyaya, obviously having learnt from recent experience, spoke with great circumspection while intervening in the debates in the two houses. He however succeeded in creating an impression that, so far as he was concerned, he had no objection to place all the cards on the table. It was clear, however, that it was Mr Dikshit whom the government had chosen for laying down the law on its behalf. The Home minister performed better in the Rajya Sabha than in the Lok Sabha. In the latter body he had to speak late in the night, well after 11 p.m., after listening to hours of haranguing. This would have been hard even on a much younger or more alert person. At one point the Home minister had difficulty in identifying the CBI by its proper initials or name. His fumbling for words here reminded me of the difficulty Mr Nixon was reported to have had in mentioning or recalling the name of the Watergate special prosecutor, Mr Leon Jaworski, during a telephone talk the ex-president was having with a Congressman. Could there have been a mental block in the case of Mr Dikshit as well. Nevertheless, as I had indicated, Mr Dikshit seemed to be more at ease in the Rajya Sabha and, within limits, he made an attempt to be more or less reasonable.

The Home minister said that the CBI would be asked to complete its investigations as quickly as possible and he hoped that the government would be able to place the CBI findings before parliament in the next session provided the report disclosed that any impropriety had been committed by any MP. Mr Dikshit tried heroically to convince the house that the CBI would be completely free to pursue its inquiry but he gave the game away when he said that the CBI would not carry out verification of the signatures on the memorandum where the 20 members who had denied that they had signed it were concerned. It is worth noting here that, two days earlier, at the conclusion of the Lok Sabha debate, the Speaker had said that he had no objection to the CBI verifying these alleged signatures.

Mrs Gandhi who had gone to Madras on the day of the Lok Sabha debate, was present in the Rajya Sabha during the latter part of the discussion. She was busy looking through official papers most of the time, but a colleague claimed that he could spot her doing a *Times of India* crossword puzzle for a while. Mr Lalit Narayan Mishra was present more or less throughout the debates in the two houses, but he did not intervene. If he was undergoing any particular mental or emotional stress, he did not show much outward sign of it. As a matter of fact, in the Rajya Sabha I could see him fabricating a child's paper boat with meticulous care. However, this could be an indication that his sub-conscious was perhaps thinking of 'deep waters.'

POINTS OF VIEW

Farm capital investment in Purnea district

M.L. Singh and M.M. Mishra

PURNEA, A constituent district of Bihar, falls in the Kosi canal area. With the availability of assured irrigation from the canal system, the area has attained a high degree of agricultural prosperity. The new farm technology has been adopted particularly since 1969-70. The Small Farmers' Development Agency, first of its kind in the country, also started functioning in the district since 1970. With the creation of this agency, the banks have been very active and liberal in advancing loans to the farmers. These factors have influenced the extent and nature of farm capital formation in the district.

The major objectives of this article are: (i) to study the magnitude and pattern of capital formation on the various sizes of holdings, (ii) to study the changes in the magnitude and pattern of capital formation, and (iii) to identify the factors responsible for these changes.

random enquiry

The data for this study were collected from a cross-section enquiry of 376 farmers taken at random (according to the size proportional to the universe) from eight villages in two blocks of the district. The selection of the blocks was purposive, but four villages from each block were selected randomly. The villages were Ranipatra, Barsouni, Harda and Dagarua in Purnea East block and Dogachchi, Sarra, Banaili and Durgapur in Kasba block.

The sample farmers were stratified into small, 0.4-5.0 acres; medium, 5-20 acres; big, 20-50 acres and large farms, 50 acres and above. The total number of households under these sizes of holdings were 227, 103, 32 and 14 respectively.

The data were collected from October to December, 1973, restrospectively for the agricultural years (July to June), 1970-71, 1971-72 and 1972-73 on the basis of the memory of the farmers. A period of three years was taken because the farmers could give reliable information only for a short period.

The capital formation in this study means the addition to the stock of following capital goods, (1) farm implements, (2) farm irrigation sources (3) farm livestock, (4) farm buildings, (5) farm land improvements and (6) farm land purchases. The values of the addition to the capital goods were estimated at 1972-73 prices and costs.

degrees of capital formation

Table I gives the average annual capital formation per household and per acre for different items on the various sizes of holdings. It is evident that capital formation varied from Rs 324 to Rs 9461 per farm. On an average, the capital formation per farm was Rs 1208. Capital formation per farm showed an increasing trend with the increase in the size of holdings. Capital formation per acre, however, decreased as the size of the farm increased, with a few exceptions. On large farms, per acre capital formation was higher than that on the previous two groups of farms.

This was because of the high amount of capital formation of improved implements on the large farms. If the expenditure on improved implements is excluded, one could find an inverse relation between the size of farms and capital formation per acre. The per acre capital formation of traditional implements was negatively correlated (—.79), but per acre expenditure on improved implements was positively correlated (+.93) with the size of farms. The latter factor overcompensated the decrease in the capital formation of the traditional implements per acre, so that the capital formation per acre of implements increased with the increase in the size of the farms. It may be noted that no farm of the size below five acres undertook any investment in improved implements.

The inverse relation between per acre capital formation on irrigation and size of farms held true in all cases except one, i. e., on big farms the per acre capital formation on this item was higher than that on the previous two groups of farms. That was because electric and diesel pumpsets involving an expenditure of Rs 4000-5000 per unit as against the only other item of investment on irrigation in the area, i.e, bomboo or iron boring wells each involving an expenditure of Rs 250-400, were installed generally by big and large farms, as these alone could afford to make economic use of their large productive capacities. On the small and medium farms capital formation on this item was very low because of uneconomic size of their holdings.

The investment per acre on farm buildings decreased with increase in the size of farms. The per acre capital formation on land improvements was the highest on large farms. The reason for this was that a considerable portion of land on such farms had been previously barren and uncultivated but the same was made cultivable due to the availability of tractors.

importance of livestock

As regards the pattern of capital formation, livestock was the main item of investment (28.2%) followed by irrigation (22.8%), implements (15.1%), farm buildings (14.0%), land improvements (10.4%) and land purchases (9.5%). Although livestock constituted the main item of capital formation, next to it the farmers allocated the largest percentage of their resources on items like medern irrigation and implemets. That indicates a healthy trend of capital formation in this area.

On the small farms, livestock was the single largest constituent of capital formation (51.0%) followed by irrigation, land purchase, land improvement, buildings and implements. The importance of livestock as the main item of capital formation continued up to the medium farms but its proportion to the total capital formation declined sharply to 30.2 per cent. The other items of capital formation maintained the same order of importance as on the small farms except that farm building was next only to irrigation in importance. On the big farms, irrigation was the main item of investment followed by livestock, farm building, land improvement and land purchases. On this category of farms, implements were the item of least importance. On large farms, implements constituted the single largest proportion of total capital formation (43.3%) followed by irrigation (16.3%) and livestock (15.7%). The other items of capital formation in order of their importance were land improvement, farm building and land purchase.

Generally, as the size of the farms increased, the proportion of capital formation on livestock decreased and that on improved implements and irrigation increased. On large farms, the proportion of capital formation for irrigation was, however, lower because there was a very high proportion of capital investment on improved implements. The bigger sized farms by making a high proportion of capital formation on modern capital goods were more modernised and/or mechanised than the smaller sized farms.

investment on small farms

Small farms made a very high proportion of capital investment on livestock and a very low proportion on irrigation and implements. That was quite natural. Their farms being uneconomic, small farmers had to invest more on livestock (and more so on milch cattle) to suppplement their small incomes. They made a very low proportion of capital investment on irrigation and implements as they could not make an economic use of the large productive capacities of pumpsets and such improved implements as threshers and tractors because of the uneconomic size and fragmentation of their holdings. The incentive for investment on these items was low also because a large portion of their land was under tenancy.

It was only the bigger sized farms which could afford to make a more economic use of productive capacities of pumpsets and improved implements, so there was a high proportion of capital investment on these items on the bigger farms. Large farmers showed the greatest tendency to invest on tractors and threshers. These farmers previously either leased out or left barren a considerable portion of their land simply because they could not complete the farm operations in time. But now they managed the much bigger size of farms with the use of t ractors.

Table II gives the variations in capital formation for three years on various sizes of holdings. Capital formation increased by 25.0 per cent in 1971-72 and 34.2 per cent in 1972-73 over 1970-71. The cor-

TABLE I

Average Annual Capital Formation for Various Items by Farm Size

(in Rs)

Items of capital formation	0.4—5.0	5—20	20—50	50 and above	Per household
	Size of farms (in acres)				
Implements					
(a) Traditional	8	16	21	27	12
	(2.5)	(1.1)	(0.7)	(0.3)	(1.0)
	3.4	1.3	0.6	0.4	1.2
(b) Improved	—	8	104	4254	170
	(—)	(0.6)	(3.3)	(45.0)	(14.1)
	—	0.7	3.1	57.3	16.4
Total	8	24	125	4281	182
	(2.5)	(1.7)	(3.9)	(45.3)	(15.1)
	3.4	2.0	3.7	57.7	17.6
Irrigation					
(a) Wells	13	29	59	84	24
	(4.0)	(2.1)	(1.9)	(0.9)	(2.0)
	5.5	2.4	1.7	1.1	2.4
(b) Pumpsets	48	272	1104	1433	251
	(14.8)	(19.2)	(34.7)	(15.1)	(20.8)
	20.3	22.6	32.7	19.3	24.2
Total	61	301	1163	1517	275
	(18.8)	(21.3)	(36.4)	(16.3)	(22.8)
	25.8	25.0	34.4	20.4	26.6
Livestock					
(a) Draught	61	245	382	828	167
	(18.8)	(17.3)	(12.0)	(8.8)	(14.6)
	25.8	20.3	11.3	11.1	16.1
(b) Milch	79	169	405	634	153
	(24.5)	(11.9)	(12.7)	(6.7)	(11.9)
	33.5	14.0	12.2	8.5	14.8
(c) Others	25	14	15	23	21
	(7.7)	(1.0)	(0.5)	(0.2)	(1.7)
	10.6	1.2	0.4	0.3	2.2
Total	165	428	802	1485	341
	(51.0)	(30.2)	(25.1)	(15.7)	(28.2)
	69.9	35.5	23.7	20.0	32,9
Farm buildings	21	286	537	889	169
	(6.5)	(20.2)	(16.8)	(9.4)	(14.0)
	9.0	23.7	15.9	11.9	16.3
Land improvements	28	154	294	1121	126
	(8.6)	(10.9)	(9.2)	(11.8)	(10.4)
	11.9	12.7	8.7	15.8	12.2
Land purchases	41	223	274	168	115
	(12.6)	(15.8)	(8.6)	(1.8)	(9.5)
	17.4	18.5	8.1	2.2	11.2
Grand total	324	1416	3195	9461	1208
	(100)	(100)	(100)	(100)	(100)
	137.4	117.4	94.5	127.3	116.8

1. Figures in brackets indicate percentage share of different components of capital formation.
2. Figures at the bottom of each item indicate capital formation per acre.

responding increases were 24.2 per cent and 59.5 per cent for irrigation and 60.0 per cent and 67.2 per cent for implements in the two years, respectively. The expenditure on land purchases registered an increase of 38.1 per cent and 17.5 per cent. The greatest increase in capital formation was recorded for land improvements, 90.0 per cent and 124.3 per cent in two years, respectively. The least annual variations were observed in the cases of livestock and farm buildings. Capital formation on livestock increased on all the farms except on large farms. On the latter, capital investment on this item declined showing a tendency of substitution of tractors for bullocks. Capital *formation on implements* recorded the greatest increase on large farms. Irrigation too showed highest increase on large farms. Increase in investment on land improvements was, however, greater *on* small farms than on large farm. That was because a relatively greater amount of subsidy was given to the small farmers for this item by the institutional agencies. Land purchases and farm buildings did not show a definite trend with respect to the size of holdings. On the whole, large farms showed the largest increase in capital formation, 46.0 per cent, in 1972-73 over 1970-71. The corresponding increases were 23.1 per cent on big farms, 32.6 per cent on medium farm and 36.2 per cent on small farms.

role of borrowing

A large part of capital formation of the farmers was financed by borrowings. Borrowing constituted 68.5 per cent of the total capital formation. Small farmers' borrowings constituted 117.0 per cent of their total capital formation. As the size of farms increased, the borrowings as percentage of capital formation decreased. The proportions of borrowings to total capital formation were 76.3 per cent, 52.2 per cent and 46.8 per cent on medium, big and large farms, respectively.

A considerable part of borrowing of the sample farmers (40.5%) was from non-institutional sources, e.g., moneylenders, friends and relatives. On the small farms, a high proportion (56.7%) of total loans was from non-institutional sources. The corresponding proportions were 46.1 per cent, 32.2 per cent and 14.3 per cent on the medum, big and large farms. The loans from non-institutional sources were taken at a high rate of interest mostly for unproductive purposes i.e., farm consumption, expenditures on

TABLE II

Capital Formation on Various Items by Farm Size for 1970-71, 1971-72 and 1972-73

(in Rs)

Items	Year	0.4—5.0	5—20	20—50	50 and above	Per household
		Size of arms (in acres)				
Implements	1970-71	7	19	93	2951	128
	1971-72	9	28	144	4787	204
	1972-73	8	25	138	5105	214
Irrigation	1970-71	47	241	958	1049	215
	1971-72	56	294	1123	1525	267
	1972-73	81	367	1407	1977	343
Livestock	1970-71	154	396	798	1783	337
	1971-72	159	463	736	1523	343
	1972-73	183	425	871	1148	344
Farm buildings	1970-71	20	248	645	715	161
	1971-72	24	331	428	1025	179
	1972-73	19	277	539	927	167
Land improvements	1970-71	10	83	151	786	71
	1971-72	33	162	337	1119	135
	1972-73	41	217	394	1458	172
Land purchases	1970-71	33	169	315	113	97
	1971-72	52	281	213	202	134
	1972-73	37	221	294	189	114
Total	1970-71	271	1156	2960	7397	1009
	1971-72	333	1559	2981	10181	1262
	1972-73	369	1532	3643	10804	1354

TABLE III

Average Annual Amounts of Loans from Various Credit Agencies by Farm Sizes

(in Rs)

Credit agencies	0.4—5.0	5—20	20—50	50 and above	Per household
	Farm size (in acres)				
Money lenders, relatives and friends	215	498	537	621	335
	(56.7)	(46.1)	(32.2)	(14.3)	(40.5)
Co-operatives	29	128	210	748	98
	(7.6)	(11.9)	(12.6)	(17.3)	(11.8)
Land mortgage banks	46	164	431	1493	165
	(12.2)	(15.1)	(25.8)	(34.5)	(19.9)
Commercial banks	74	192	327	967	161
	(19.5)	(17.7)	(19.6)	(22.4)	(19.4)
Government	15	99	163	498	69
	(3.9)	(9.2)	(9.8)	(11.5)	(8.3)
Total	379	1081	1668	4327	828
	(100)	(100)	(100)	(100)	(100)
Borrowing as % of capital formation	117.0	76.3	52.2	46.8	68.5

Figures in brackets indicate percentages of total.

social ceremonies etc. These loans were not financed by the institutional sources. Small farms depended more on the non-institutional sources because they were required for family consumption.

Among all the institutional credit agencies, land mortgage banks and commercial banks played a dominant role. The other institutional agencies in order of their importance were co-operatives and government.

Purpose-wise loans from institutional sources are given in Table IV. The largest amount of loan (41.2%) was taken for bamboo and iron boring wells and pumpsets. Livestock commanded the second most important item of finance followed by implements and land improvement. As the size of farms increased, the proportion of loan for irrigation increased with the exception of large farms. The latter took the largest amount of loans (63.7%) for implements only. The small farms took the largest amount of loan (50.0%) for livestock alone. As the size of farms increased, the proportion of loan for livestock decreased and that for implements increased. The bigger sized farms took less proportion of loans for land improvement than the smaller sized farms.

A high proportion of capital investment on irrigation (73.8%) was financed by institutional agencies. The credit institutions financed to the extent of 53.8 per cent, 49.2 per cent and 38.2 per cent of the total capital formation on implements, land improvement and livestock, respectively.

The capital formation of Purnea farm economy thus indicates a bright picture. Although the proportion of investment was highest on livestock, the farmers allocated a high percentage of investment on irrigation and implements. The small farms made large investments on livestock and low investments on irrigation and implements, showing that they were less modernised than the bigger sized farms who made a large proportion of investment on irrigation and improved implements. The institutional credit agencies contributed significantly to the capital formation of the farmers. The investment pattern of the farmers was influenced by the pattern of financing by the institutional credit agencies.

TABLE IV

Purpose-wise Financing of Capital Formation by Institutional Agencies

(in Rs)

Items	Farm Size (in acres) 0.4—5.0	5—20	20—50	50 and above	Per household
Wells and pumpsets	57 (34.8)	294 (50.5)	719 (63.8)	804 (21.7)	203 (41.2)
Implements	— (—)	10 (1.8)	75 (6.6)	2361 (63.7)	98 (19.9)
Livestock	82 (50.0)	186 (31.7)	216 (19.1)	266 (7.2)	130 (26.4)
Land improvements	25 (15.2)	93 (16.0)	121 (10.5)	275 (7.4)	62 (12.5)
Total	164 (100)	583 (100)	1131 (100)	3706 (100)	493 (100)

Figures in brackets indicate percentages of total.

WINDOW ON THE WORLD

Importance of the UK election

London

Jossleyn Hennessy

World Economic Outlook

ECONOMIC PROSPECTS throughout the internationally trading world and in the UK have worsened in the past three months, according to the National Institute of Economic and Social Research, Britain's leading non-official economic research centre, directed by the influential Oxford economist G. D. N. Worswick.

The report in the latest issue (no 69) of the National Institutes quarterly *Review* was the leading item of economic news on the date of its publication in all the British national dailies.

Background developments in the world economy have not been encouraging as governments attempt to deal with both inflation and balance of payments problems by increasingly restrictive monetary and fiscal policies.

The substantially increased aid necessary to maintain the development plans of some non-oil-producing developing countries, *in the face of* oil and other price rises, looks increasingly unlikely over the next twelve months. One of the outstanding examples, Bangladesh, is in addition having to cope with natural disasters.

In the UK inflation now seems likely to be an even more serious problem than it did three months ago, both in its own rights and in its effect on the UK's competitive position.

Although unemployment is already high, the authorities in many countries have tended to reinforce the contractional effects of higher oil prices by tightening demand management policies. This tendency is apparent, so far, even in countries such as the USA and West Germany, which have little or no balance of payments problems and whose inflation rates are well below those of Japan and some other industrial states. As a result, the NIESR puts the rise in OECD real output at little more than one per cent this year, picking up only moderately next year to *an increase of around* $3\frac{1}{2}$ *per cent.*

Some slowing down of the rate of in*flation in the* OECD area as a whole is expected, partly because the NIESR thinks the recent falls on commodity markets are likely to be carried further by the end of 1974.

The average cost of oil has continued to rise somewhat, but the Institute expects it to be roughly unchanged from now until the end of 1975.

The *ability of the non-oil* developing countries to maintain their desired volume of imports in 1975 will depend on export earnings and aid. Earnings will be depressed by the commodity price falls, while aid from the OECD countries is more *likely to be below* than above the levels planned before the rise in oil bills.

Although no serious financing problems appear to have arisen as yet, there does not seem to have been much growth in the volume of world trade so far this year. The Institute now puts the increase at only three per cent in 1974 and five per cent in 1975.

Although the disruption of output during the emergency of the three day working week in the first quarter of this year seems to have been relatively slight, the UK economy has not yet regained a level of activity as high as that of last year. GDP probably fell by two per cent in the first half of the year, while unemployment has, since May, been on a clear upward trend.

Increase in unemployment

A combination of the strongly contradictory effect of the increased price of oil, the December cuts in public expendi*ture and, now, the expectation of some* loss of UK internal competitiveness leads the NIESR to forecast—on the assump*tion that policies remain unchanged*—little further growth from now on despite the mild reflation of the July budget. Between the second half of this year and *the second half of 1975 GDP is forecast* to rise by less than one per cent; *unemployment* may rise to around 675,000 by the New Year and to over 900,000 by the end of 1975 (seasonally adjusted)

After rising 20 per cent through this year, *average earnings* are forecast to rise by 18 per cent through next and *consumer prices* by $16\frac{3}{4}$ and $17\frac{1}{2}$ per cent respectively.

Real personal disposable income is likely to continue to be depressed by the effects of the massive rise in import prices (40 per cent through 1973 and a further 33 per cent through this year) and by fiscal drag. After falling $2\frac{1}{2}$ per cent this year there may be another drop of around $1\frac{3}{4}$ per cent in 1973. *Consumers' expenditure* is therefore also likely to remain depressed: a fall of $1\frac{1}{2}$ per cent this year may be followed by a further fall in 1975.

Exports of *goods and services* have been buoyant recently, but the NIESR expects growth to slow down *sharply from now* on. Over the twelve months from the second half of this year growth is forecast at less than four per cent.

The outlook for private investment is poor: after a large rise this year of $13\frac{1}{2}$ per cent, *manufacturing investment* is expected to fall through next year. Private *housing investment* too, is forecast to fall sharply this year though more slowly in 1975.

Public authorities' current spending is forecast to rise by less than one per cent through this year, but by three per cent through 1975. *Public investment* may fall by about half a per cent in 1974, but pick up somewhat next year as the December cuts work themselves out; the NIESR puts the rise in 1975 at five per cent.

Imports of goods and services in volume are forecast to rise by 1½ per cent this year and by 3½ per cent next—the acceleration being partly accounted for by the expected loss of UK price competitiveness.

The British *balance of payments* outlooks has thus worsened: on current account the Institute expects the deficit to be nearly £4,000 million this year and £2,750 million in 1975. Of these deficits oil accounts for £2,400 million and £2,000 million respectively.

II

Clouds Over the World

The outlook throughout the internationally trading world, as in the UK, remains clouded. The Institute's earlier hopes that the rest of the advanced world might be persuaded to adopt moderately expansionary policies to counter the contractional effects of higher oil prices have so far come to nothing—in fact the reverse. The inhibition which this places on the use of UK domestic demand management to prevent a rise in unemployment is now the NIESR thinks, compounded by the worsened outlook for UK domestically generated inflation, and indeed emphasises this as the single most important problem. The Institute confesses that it knows of no economic panacea which would transform the outlook, but offers a brief review of the main problems.

On present policies, the NIESR anticipates stagnant output, rising unemployment and somewhat greater inflation than it foresaw last May, with a slower improvement in the balance of payments.

Export-led expansion is the most desirable way to increase *employment*, and the conventional way to secure it would be a further fall in the exchange rate. The experience of recent years, however, suggests that any competitive advantage so gained will now be quickly eroded by an acceleration of the rises in domestic costs and prices. On the other hand, if by any means the present rise in domestic costs and prices could be slowed down, this could lead to lasting gains in price competitiveness both in export markets and against imports in the home market. To offset rising unemployment by increasing domestic demand reduces such improvement in the balance of payments as is written into the forecasts. This effect can be minimised to the extent that domestic demand can be steered in directions where the import content is low—for example some forms of public expenditure.

The forecast for *the UK balance of payments* on current account shows that the nation is living beyond its means this year to the extent of about six per cent of GDP. There is no justification for this in the long term, but the same problem is shared by a number of countries and its solution should not be sought in measures which would further harm others. Any measures which improved the current UK balance must reduce UK imports, increase UK exports or both, but some would be internationally more acceptable than others. Direct measures to restrict imports would invite retaliation, which would not occur if there were an improvement in the general competitiveness of UK manufactures. The objection to devaluation has already been mentioned. Once again the alternative is some means of slowing down the rise in UK costs and prices.

This aside, the best single measure to aid the balance of payments would be to reduce the demand for oil. Some oil producers have already intimated that they do not wish to use up their oil reserves too quickly, so that they should not object and the reduction would have no serious effects on any one else.

III

Inflation

The third question is inflation. There are two broad classes of measures which can, in principle, alter the rate of increase of incomes and prices. The first is "demand management" and includes both "monetarist" and "Keynesian" measures. A reduction in the quantity of money (or a deceleration in its rate of increase) and an increase in taxation (or a failure to correct fully for fiscal drag) would ultimately influence the generel level of prices.

Such differences as exist between monetarists and Keynesians concern the speed with which aggregate monetary demand responds to the change in monetary or fiscal policy and the way in which (the relative) reduction in monetary demand is divided between prices and output. All monetarists and some Keynesians think that a relative contraction in aggregate demand will produce some fall in the rate of inflation of money incomes and prices, but Keynesians believe that a contraction in monetary demand will fall mainly on output and employment.

Another view put forward by professor Lord Kahn and Mr M. V. Posner of Cambridge in their evidence to the Expenditure Committee, is that higher unemployment will cause trade unions to press for even higher increases in money wages in an attempt to counter rising unemployment.

anticipated rise

The Institute's own view is that if UK fiscal and monetary policy in the coming twelve months were changed so as to reduce the anticipated rise in unemployment and fall in investment this would not significantly influence the forecast rate of wage and price increases. in any case, however great or small is the influence of demand management on the price level, if it is earmarked for this purpose it is not freely available to regulate output and employment at the same time. (The reaction of the House of Commons Expenditure Committee to this logical point is interesting. They recognise that the use of monetary policy to control prices could lead to bankruptcies and unemployment, which they reject. At the same time they tell economists to stop talking about incomes policy, which, comments the NIESR, is as though the economists explained to the Committee that coins have two sides and—the Committee replied by telling them not to say such horrid things but to go away and design coins with one side only).

"Incomes policy" is a term of art to cover all policies other than demand management "whose main objective is to slow down the rise in prices which impinge directly on wages or prices or both". It is not part of the definition that incomes policies should be statutory, although many instances include some statutory component. The policy of the late Heath government included statutory control in some detail over all forms of money incomes and prices. The present Labour government's policy retains statutory regulation of *prices*, but since the ending of stage 3 it relies upon the "social compact" to bring about moderation of *wage* claims and presumably of wage settlements.

The general intent of the "social compact" is that money wage increases should do no more than compensate for the rise in prices, but this is a condition which is compatible with widely varying rates of inflation. One fairly strict interpretation of this, whereby wage increases were for the time being confined to the application of a simple indexing formula, would slow down inflation at a time when import prices are no longer rising dramatically. The NIESR's present forecast shows some deceleration of inflation towards the end of 1975 but the rate will still be in double figures

Almost all the time in the past fifteen

years governments have been trying various forms of "incomes policy" to reduce inflation and in particular the pendulum has swung regularly between statutory controls and voluntary agreement. If we bear in mind the swings both in policy and in public opinion it seems almost inevitable that the "social compact" must be given an opportunity of at least a full year's wage round to demonstrate its potentialities or lack of them. The Institute itself doubts that it will be sufficiently effective to prevent a deterioration in price competitiveness; thought should in any case to be given now as to how the "social compact" can be buttressed or replaced should the need arise. In the past, periods of voluntary incomes policy have more than once been abruptly ended by a freeze, but without sufficient preparation for the immediate anomalies that it generates. This time it is desirable that preparations should be made well in advance, so that future action will be both fairer and more effective than on previous occasions.

IV

A Possible Way Out

On these gloomy forecasts, *The Economist* offers some pungent comments. It agrees that on present policies there will be a long slump, with unemployment reaching towards the inter-war depression figures of 2,000,000 plus. This, says *The Economist*, is the result of the 1974 general election, when Mr Heath asked the voters to declare in support of the rational control of the trades unions' monopoly bargaining power. They voted instead to appease the unions. Referring to the NIESR's forecasts of virtual stagnation in output, *The Economist* says that the UK is losing this production and men and women are going to lose their jobs, because appeasement has failed. The unions have not responded to the "social compact" by moderating their demands or keeping industrial peace. Instead the par for wage settlements has risen to 25 per cent. *The Economist* argues that the UK's deficit on current account of £2,750 million (NIESR's forecast for 1975) could be reduced to manageable proportions if a freeze on *real* wages were imposed till the end of 1975 (repeat 1975!), i.e. if all wages and salaries were allowed to rise in line with the cost of living. This curb on inflation would make UK exports very competitive probably allowing the UK to maintain nearly full employment, The alternative is to reduce the balance of payments deficit by slashing imports by the lower consumption of millions of unemployed.

Some economists hold that incomes policy has either failed or is politically

impossible and they therefor anticipate cure by a slump of inter-war magnitude. *The Economist*, on the other hand, argues that a slump would cure nothing because redundant workers would not accept lower wages; they would have recourse to to sit ins and to violence.

By contrast an incomes policy did not fail until the voters abandoned it. Stages I and II of Mr Heath's pay controls were successfull. The economy enjoyed growth and full employment. The policy broke down when, undermined by imported inflation via higher commodity and oil prices, the voters refused to support Mr Heath's stand against the miners.

The Economist concludes that an incomes policy *is the only* alternative to a slump. This would produce a trial of strength with the unions. Overwhelming support by the voters could enable the government to win.

The alternatives are either mass unemployment or an incomes policy. Within a very few weeks, the voters will decide which. Needless to say, a slump in the UK would add appreciably to the world forces of deflation and stagnation, so that in whatever country we live we all have an interest in the coming UK election. Let us pray.

Trade expands hand in hand with inflation

> This is the text of the first chapter of the GATT report "International Trade 1973-74". The full report will be released by the GATT secretariat next month.

Development in 1973

An exceptionally strong investment and production boom of unusually brief duration, record trade expansion, record inflation, the demise of the fixed exchange rate system and a gradual adoption of managed floating—these were the main developments in the world economy in 1973. The surprisingly fast correction of two major trade imbalances—that of the United States whose trade deficit was reduced from \$9.1 billion in 1972 to \$1.9 billion (c.i.f.—f.o.b.), and of Japan whose trade surplus was reduced from \$5.1 to \$1.4 billion—proceeded simultaneously with the worsening of others—the trade deficit of the United Kingdom increased from \$3.5 to \$8.3 billion, that of Italy from \$0.7 to \$5.6 billion, while the trade surplus of (West) Germany increased from \$6.4 to \$13.0 billion. Whether the sum of these changes represented a movement toward or away from a global trade equilibrium became an academic question when, at the end of the year, the rise in crude oil prices created trade and payments situation that would engage the attention of national and international economic policy makers in 1974 and possibly for several years to come.

unprecedented rise

World output (excluding services) rose by an unprecedented 8 per cent in 1973, compared with 5 per cent in the preceding year and an annual average of 5.5 per cent in 1961-71. The strength of the boom in the industrial areas can be judged even better from the following figures: the combined real GNP of the major industrial countries increased, despite a general slackening of growth in the second half of the year, by 6.5 per cent—again a record rate—as against 5.8 per cent in 1972 and an annual average of 4.9 per cent in 1961-71.[1] The comparison of these two sets of figures suggests that production increased even more rapidly in developing than in industrial areas.

Following a decline of about one per cent in 1972, world agricultural output rose by 4-5 per cent. The growth of world mining output accelerated sharply from 4.0 per cent in 1972 to 7 per cent Similarly, world manufacturing expanded by 10 per cent, as against 8 per cent in the previous year. In all three sectors, the 1973 increases were considerably above the long-term average.

The dollar value of world exports increased by 37 per cent, following an increase of just under 20 per cent in 1972; the average for 1961-71 had been 10 per cent per annum.[2] Change in the dollar's exchange rate and price increases accounted for the major part of the value increases: nonetheless, there was also a pronounced acceleration in the growth of world export *volume*, from 9 per cent in 1972 to about 13 per cent, a rate equal to 1968's record expansion.

Trade in agricultural products was up by nearly one-half in value terms but virtually unchanged in volume from 1972. Mining exports increased 46 per cent in value and 11.0 per cent in volume; for manufactured products, the corresponding increases were 32 and 14 per cent respectively. In both mining and manufacturing, it may be noted, the growth of exports considerably exceeded that of production, indeed, the discrepancy has widened since the beginning of the 1970's.

The volume growth of industrial countries' exports. at 14½ per cent, exceeded that of imports by two percentage points. Favourable terms of trade enabled developing countries to expand the volume of their imports despite a decline in (real) economic assistance. Imports from industrial countries into the Eastern trading area increased even more rapidly, mainly due to a further expansion of commercial credit.

slight shifts

There were only slight shifts in the three areas' shares in world exports, at current dollar values. By virtue of their strong terms of trade, the developing area maintained, for the third consecutive year their market share of 18 per cent. The share of the Eastern trading area declined slightly, reflecting the fact that prices in intra-area trade, which absorbs 56 per cent of the area's total exports, were raised only marginally in 1973. There was a correspondingly small increase in the share of the industrial areas.

Three particular developments in 1973 have been singled out for a more detailed review.[3]

The boom itself was unusually brief. Starting in the second half of 1972, it was over by mid—1973. It was so strong, however, that despite the steep deceleration in the industrial countries in the second half of the year, it brought the annual global growth rate to a record level. To explain it we must go back to 1970 and 1971. In these two years world material production increased by less than 4 per cent per annum, as compared with the long term average of 5.5 per cent, while the combined GNP of the OECD countries increased by a little over 3 per cent per aunum, well below its long-term average of 4.8 per cent. In particular, these two years mark an almost simultaneous cyclical low of business investment in the main industrial countries; in the United States, this was acccntuated by stagnation in consumption expenditure, producing an actual decline in real GNP in 1970. No significant additions to productive capacity were made in these countries during that period, and from the much rougher global figure it may be surmised that mining and manufacturing investment in the developing areas was adversely affected as well. It appears, in particular, that the relatively more capital-intensive industries at the first stage of raw material processing were starved of investment.

The cyclical upswing in investment expanditure in the second half of 1972 was simulated, inter alia, by very low real rates of interest (i.e. nominal interest rates diminished by the rate of inflation), brought about by a super-abundance of international and national liquidity. It led a remarkably rapid growth in aggregate demand—from mid-1972 to mid-1973 the real GNP of the main OECD countries was growing at a rate of 7.5 per cent—which, however, was soon to be arrested by multiplying physical shortages of certain items as capacity limits were reached, the investments undertaken during the recovery and boom having not yet made a substantial impact on supply.

During the boom, and especially in ebb, exports in many countries were the most dynamic category of demand. For example, the volume of net merchandise exports in 1973 corresponded to about one-fifth of the 7.5 per cent increase in the volume of the (combined) industrial and agricultural production in the United States; and in the fourth quarter of the year, net exports contributed nearly one-half of the total increase. In (West) Germany, the increase in net exports (including services) represented nearly 40 per cent of the increase in real GNP for 1973 as a whole; in the second half of the year, external demand was the only expansive element, net exports expanding by DM4 billion (at 1962 prices) while GNP rose by less than DM400 million.[4]

main problem

As foreseen in *Intevnational Trade 1972* inflation continued to be the main international economic problem. The rate of increase in consumer prices accelerated in every OECD country during the year, with the annual average for the aggregate increasing to 7.7 per cent, up from the previous year's 4.6 per cent, and more than double the 3.7 per cent annual average for the period 1961-71.[5] Evidance for the developing countries, in many of which inflation has been chronic, suggests a similar increase in the rate of inflation. There has been, in addition, a significant change in the pattern of recent price increases as compared with the experience of the preceding two decades. Whereas up to 1971 the annual increase in consumer prices and in the GNP price deflator generally exceeded that of wholesale prices and of export unit values, in 1972 and especially in 1973 and 1974 the opposite was the case. Because economic activity was expanding simultaneously in most major countries, there was little or no slack available to absorb inflationary pressures spilling out through the trade sector, and the resulting pressure on prices of tradeable goods was quickly transmitted to substitutes in domestic consumption and production. The continuing upward pressure on consumer prices during 1974 is thus in part a result of these earlier rapid increases in wholesale prices.

The question of the source or sources of the mounting world-wide inflationary pressure has attracted a great deal of attention. Recent analyses, in particular tend to cast the boom in prices of certain foodstuffs and raw materials in a central role. Export prices of primary products, which had started to move upward in the second half of 1972, rose at an accelerated pace in 1973, eventually exceeding their level of previous year by 43 per cent;

TABLE I

Development of World Exports and Production Between 1970 and 1973

	1960	1965	1966	1967	1968	1969	1970	1971	1972	1973
World Exports										
Value (billion dollars f.o.b.)										
Total	128.3	186.5	204.0	214.5	239.5	273.5	312.0	349.4	414.7	566.7
Agricultural products	40.0	49.6	52.3	52.2	53.8	57.9	64 3	68.8	(82.7)	—
Minerals (a)	21.4	31.0	33.7	35.9	40.6	44.6	51.2	56.0	(64.5)	—
Manufactures	64.4	102.8	114.2	122.9	140.4	164.5	189.6	215.7	(257.2)	—
Unit value (1960=100)										
Total	100	103	105	105	104	108	114	121	132	160
Agricultural products	100	101	101	100	99	104	107	111	125	185
Minerals (a)	100	109	113	109	110	115	123	131	142	187
Manufactures	100	103	104	106	106	108	114	123	134	154
Volume (1960=100)										
Total	100	141	151	159	180	197	213	224	244	276
Agricultural products	100	123	130	130	136	139	150	155	(166)	—
Minerals (a)	100	133	140	153	172	181	194	200	(212)	—
Manufactures	100	155	171	181	207	238	260	274	(300)	—
World Commodity Output										
Volume (1960=100)										
All commodities	100	130	139	145	155	164	170	177	186	202
Agriculture	100	113	118	121	125	126	129	134	133	139
Mining	100	127	133	139	147	154	167	172	180	192
Manufacturing	100	138	150	157	169	182	188	196	211	232

(a) Including fuels and non-ferrous metals.

an increase which was more than 2½ times higher than that of manufacturing prices.[6]

There are two important qualifications to the view that rising commodity prices "cause" inflation. First, the fact that shortages of metals and minerals developed despite a record increase in world mining production indicates that demand was growing even more repidly, and that in this sector at least (excluding fuels), the higher commodity prices were a result of inflationary pressure, not its cause. In those instances in which there was an actual shortfall in the supply of a commodity, the higher price does not represent an independent source of upward pressure on the price index: this was the case, in particular, for a number of agricultural commodities whose production was severally affected by unfavourable weather conditions in the major producing countries in the agricultural year 1972-73. However, these supply related price increases affected only a sub-set of commodities—essentially agricultural products, and now petroleum. They contributed to the increase in the *average* level of prices but by themselves cannot explain the simultaneous upward movement in all prices which is characteristic of a continuing inflation.

If, as is generally accepted, many prices are not very flexible downwards, a supply-induced price increase for an important product,or a group of products, would, *ceteriparibus*, tend to cause an increase in unemployment. In such a situation, the central bank may increase the money supply so as to permit the

TABLE II

Network of Total Exports by Major Areas, 1960, 1965-1973

(Billion dollars f.o.b. and percentages of world exports)

Destination/ origin	Year	Industrial areas		Developing areas		Eastern trading area		Total world*	
		Value	%	Value	%	Value	%	Value	%
Industrial areas	1960	54.43	42.5	23.93	16.3	2.89	2.3	81.80	63.8
	1965	87.61	46.9	25 53	13.7	4.70	2.5	123.09	65·9
	1966	97.42	47.8	28.01	13.8	5.61	2.8	135.95	66.8
	1967	103.57	48.3	28.33	13.2	6.02	2.8	143.31	66.9
	1968	117.90	49.3	31.71	13.3	6.34	2.7	161.51	67.5
	1969	138.42	50.7	35.01	12.8	6.95	2.5	186.43	68.3
	1970	160.59	51.5	39.93	12.8	8.16	2.6	215.84	69.2
	1971	180.63	51.7	44.76	12.8	8.88	2.5	241.98	69.3
	1972	217.87	52.5	50.13	12.1	11.74	2.8	286.95	69.2
	1973	293.00	51.7	69.70	12.3	17.80	3.2	391.10	69.0
Developing areas	1960	19.21	15.0	6.26	4.9	1.23	1.0	27.45	21.4
	1965	25.41	13.6	7.73	4.1	2.41	1.3	36.43	19.5
	1966	27.38	13.4	8.04	3.9	2.36	1.2	38.63	19.0
	1967	28.66	13.4	8.21	3.8	2.17	1.0	39.98	18.7
	1968	31.95	13.4	9.13	3.8	2.27	0.9	44.35	18.5
	1969	35.45	13.0	10.32	3.8	2.64	1.0	49.52	18.1
	1970	39.97	12.8	11.09	3.6	3.15	1.0	55.45	17.8
	1971	46.16	13.2	12.51	3.6	3.23	0.9	63.01	18.0
	1972	55.43	13.4	14.54	3.5	3.46	0.8	74.65	18.0
	1973	75.40	13.3	19.90	3.5	5.40	1.0	102.50	18.1
Eastern trading area	1960	2.79	2.2	1.34	1.0	10.85	8.5	15.02	11.7
	1965	4.65	2.5	3.21	1.7	13.82	7.4	21.73	11.6
	1966	5.58	2.7	3.62	1.8	13.96	6.9	23.20	11.4
	1967	5.90	2.8	3.80	1.8	15.14	7.1	24.89	11.6
	1968	6.18	2.6	4.05	1.7	16.69	7.0	26.98	11.3
	1969	6.96	2.5	4.58	1.7	18.14	6.6	29.74	10.9
	1970	7.74	2.5	5.14	1.6	19.95	6.4	32.89	10.5
	1971	8.72	2.5	5.25	1.5	21.88	6.3	35.92	10.3
	1972	10.28	2.5	5.96	1.4	26.24	6.3	42.57	10.3
	1973	15.70	2.8	8.70	1.5	32.90	5.8	57.40	10.1
Total world*	1960	79.32	61.9	29.18	22.8	15.15	11.8	128.20	100.0
	1965	121.63	65.2	37.30	20.0	21.26	11.4	186.70	100.0
	1966	134.75	66.2	40.68	20.0	22.08	10.8	203.60	100.0
	1967	142.53	66.5	41.56	19.4	23.59	11.0	214.40	100.0
	1968	160.78	67.2	46.03	19.2	25.53	10.7	239.30	100.0
	1969	186.25	68.2	51.16	18.7	27.97	10.2	272.90	100.0
	1970	213.87	68.5	57.63	18.5	31.60	10.1	312.00	100.0
	1971	241.31	69.1	64.37	18.4	34.31	9.8	349.40	100.0
	1972	291.07	70.1	72.70	17.5	41.77	10.1	414.70	100.0
	1973	395.20	69.7	101.30	17.9	56.70	10.0	566.70	100.0

*Including Australia, New Zealand and South Africa.

change in relative prices to occur *without* affecting employment. Such a policy will result in an increase in the average level of prices, but this *increase is a* finite one and, once the original impulse has worked its way through the price system, it does not continue to exert the kind of inflationary pressure currently plaguing the world economy. Finally, a recovery of normal output will result in lower prices of the products in question which—in the absence of other inflationary pressures—would allow the price index to decline with no accompanying employment problems.

It appears, therfore, that developments originating in commodity markets have not made as important a contribution to the continuing world inflation as is sometimes claimed. The level of aggregate demand, on the other hand, has been a much more important source of generalized inflationary pressure. This is seen most clearly in the impact of the 1972-73 boom, when rapidly expanding world demand produced upward pressure on virtually all prices.

behaviour of reserves

An insight into the nature of the stimulus to aggregate demand can be gained by examining the behaviour of world reserves and domestic money supplies in the major industrial countries. Between 1961 and 1969 annual *increases in* the dollar value of world reserves ranged from 0.5 to 5.5 per cent, with an average for the period of 2.8 per cent a year. During the next four years, the annual rates of increase were, respectively, 18.5, 40.8, 21.5, and 1 5.7 per cent; a substantial part of the increase during those four years was accounted for by increased holdings of foreign exchange. As for domestic money, annual increases in the aggregate money supply of eleven large industrial countries during 1961-1969 ranged from 5.0 (1966) to 9.1 (1968) per cent with an average rate of 6.8 per cent a year for the period as a whole; for the ensuing four years the figures are 10.6, 17·6, 15.5, and 14.0 per cent respectively.[7] In contrast, during the period 1961-1969 the output of goods and services in the eleven countries as a whole grew at an average annual rate of about 5.4 per cent; the corresponding fiigure for 1970-1973 is 5.2 per cent a year. Comparing these figures it is clear that in recent years monetary expansion has been well in excess of the rate necessary for reasonably stable price levels. The main part of the explanation of this *excessive monetary growth* lies in the fact that these massive increases in reserves reduced the ability of central banks to resist pressures for "easier" monetary policies.[8]

Whether "easier" monetary policies were intended to reduce unemployment, or to prevent it by accommodating wage settlements in excess of productivity, sectoral price increases due to supply shortfalls, and similar *ad hoc* disturbances, they were an expression of a brief firmly held by most governments in the post-war period that (i) inflation and unemployment can be traded-off against one another, and (ii) the public has a greater aversion to unemployment than to inflation.

Recent events indicate that there may be problems with each of these assumptions. In the case of the inflation/unemployment trade-off, it appears that the relationship is stable only in the short run and that the terms at which the two can be traded-off worsen over time as progressively higher rates of inflation are needed to maintain a given rate of unemployment. The preference in most industrial countries for inflation over unemployment is confirmed by a considerable body of evidence which, however, only indicates the order of preference in situations in which the "price" of reducing the rate of unemployment by one or two percentage points is in the 2-5 per cent annual inflation range customary in the 1950s and 1960s. With the "price" now in the range of 10-20 per cent, and with good reasons for believing that the terms of the trade-off will continue to worsen, the industrial societies may choose a notion of "full employment" that seems more easily compatible with relative price-level stability.

demise of fixed rates

The sequence of events culminating in the demise of fixed exchange rates is well known and does not require a detailed review. At the beginning of 1973 sterling had been floating for half a year. In late January the financial lira was allowed to float, and a day later the Swiss franc was set free. Following a temporary closing of exchange markets in mid-February, the dollar was devalued by 10 per cent, and the yen and commercial lira set free. Exchange markets closed for a second time early in March. When they reopened later that month the dollar was floating against all other major currencies, including those of the eight European countries which had decided to maintain fixed rates between their currencies. The resulting arrangement remained largely intact until January of this year when France withdrew from the joint float and set the franc free. It is important to keep in mind, however, that the current system is one of managed rather than free floating. The central banks have retained the right to enter exchange markets "when necessary", and close attention continues to be paid to changes in the distribution of international reserves.

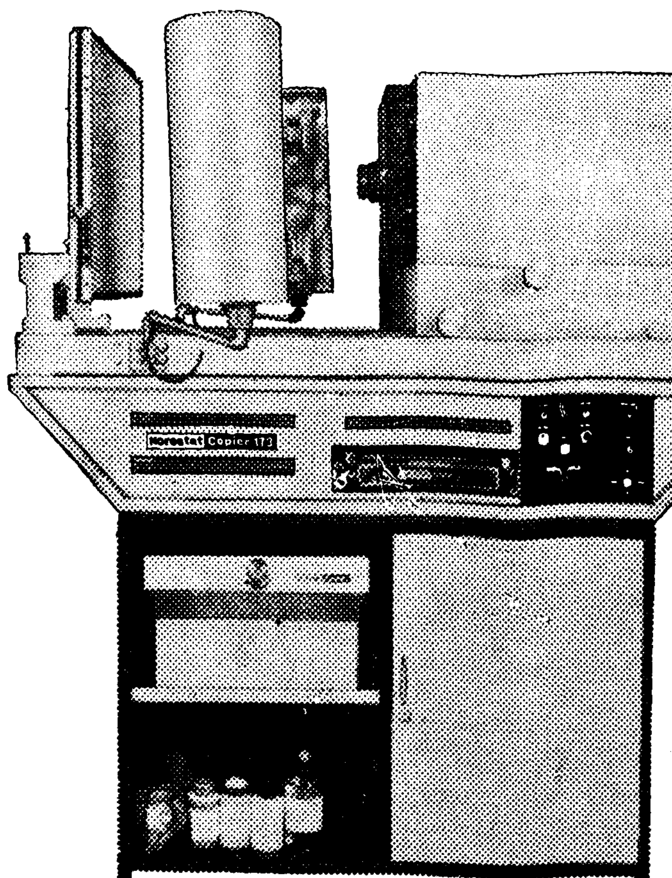
The development of a managed system of floating exchange rates is likely to have important long-term implications for the world economy. In any case, *until the full adjustment to the higher* energy prices is accomplished, and the present surge of inflation brought under control, there seems to be no viable alternative to that system.

substantial fluctuations

Although it is too early for a rounded assessment of its operation thus far, it is possible to comment on two of its aspects. First, the fluctuations in individual exchange rates over periods of several months, as well as on a weekly or daily basis, were, by any criterion, substantial.[9] What needs to be explained, therefore, is the absence or insufficient presence of stabilizing speculation.

In interpreting the behaviour of exchange rates, it is useful to recall the circumstances and the climate of opinion surrounding the introduction of the system of managed floating. There was no prior planning or consultation among the major countries, no deliberate transition to the new system; on the contrary, it grew out of improvisation and experimentation with varying degrees of management, emerging from what was widely regarded as a collapse of the previous monetary system.[10] Not accidentally, this transition coincided with the sharp acceleration of inflation and, in particular, with the steepest rise in more than two decades in most commodity prices. The commodity price explosion was interpreted in many press and market analyses as a symptom, or a part of, the monetary collapse. Then, towards the end of the year, the increases in oil prices were widely accepted as a confirmation of the preceding panicky and catastrophic analyses.

There is a tendency now to explain the wide and frequent variations in exchange rates during the period, by reference to the very short-term horizons on which financial markets are said typically to focus their attention. It should be pointed out however, that the short-sightedness was due not so much to any inherent predilection of the markets, as to a dearth of reliable information on the basis of which the markets' horizons could be extended. In particular it is possible that the decline of the United States dollar rate relative to the Deutschmark could have been arrested earlier, and the subsequent correction less steep,



if information of the accrual of export orders had been available for more countries than the Federal Republic of Germany (where, for reasons mentioned below export orders happened to be growing rapidly).[11] In other words, the operation of the system of managed floating could be improved by increasing the supply of timely, reliable information to the financial markets. Statistics on foreign trade orders would be especially useful in assessing the effects of recent exchange rate changes and in forming a longer-term outlook, and it could be helpful if the major trading countries could agree to compile and publish these data—for import as well as export orders —on a regular monthly basis. There is an equally urgent need for more timely and detailed statistics on the international movement of the growing liquidities of the oil-exporting countries to assist financial markets in their intermediation functions.

exchange rate movements

What were the effects of the exchange rate movements on the level and pattern of international trade? This is a more difficult question to answer, in part because exchange rate changes affect trade flows with a lag, but more importantly because an unqualified answer would require knowing what would have happened if floating rates had not been introduced. There are, however, two pieces of evidence which suggest that the floating exchange rate system did not have a negative impact on the volume of international trade. There is, first of all, the record equalling expansion of world trade in 1973 While it is true that the stimulus came from the world-wide boom in production, world export statistics strongly suggest that the adoption of floating rates did not impede the response of trade to this stimulus. A more convincing development was the continued increase in the proportion of world production which enters international trade. Had the system of managed floating exerted a significant inhibiting effect on trade, it would have been reflected in a narrowing of the difference between the growth of world output and the growth of trade.[12]

The evaluation can be broadened by taking a somewhat longer view. Since the last years of the 1960's the amount of uncertainty surrounding the international monetary system, and the frequency of monetary "crises" often resulting in sizable movements in exchange rates, have been greater than at any other time in the postwar years. Nevertheless throughout this period the volume of international trade has continued to expand rapidly and the extent of international specialization to increase. There is an apparent underlying strength of the forces affecting the level and pattern of world trade, a strength that has until now kept the level of real trade flows from being seriously affected by disorders at the monetary level. This in turn suggests that disorders in the monetary system, at least of the magnitude experienced in recent years, affect the level of international trade mainly through the incentive they provide for governments to manipulate trade flows directly.

changes in pattern

Changes in the pattern of trade are the result of changes in one or both of two interrelated factors: the relative strength of reciprocal demand, and relative cost-price levels. The recent adjustments of the United States and Japanese balance of payments were so rapid that they would be difficult to explain without reference to the respective exchange-rate changes (beginning with the December 1971 realignment). In general it may be noted that the changes in trade prices and volumes, recorded in countries with appreciating as well as depreciating currencies, were well in line with theoretical expectations (allowing for the influences of income change and the commodity composition of trade), as shown in the table below:

In the pattern of changes in import and export prices there are only two noticeable deviations—United States exports prices and Japanese import prices both of which can be explained by a heavy concentration of foodstuffs and other basic commodities whose world market prices experienced unusually large increases during 1973.

With respect to volume changes the results are more mixed—as would be expected since the sequences of effects runs from exchange rate change to price change to volume change, with the adjustment period between the second and third effects necessarily longer than the adjustment involved between the first two. There is reason to believe that the relatively small change in Italian and United Kingdom exports, and the large increase in West German exports, are largely the result of particular domestic demand and supply considerations. In the first two countries bottlenecks apparently developed which were translated into greater uncertainty of delivery dates, while (West) Germany's ability to fulfill delivery commitments in a period of widespread shortages partly compensated for higher nominal prices. An additional element of explanation may be found in the product composition of West German exports, a large proportion of which consists of technologically advanced producers' goods characterized by (i) long delivery periods and (ii) relatively low price elasticity of demand.

II
Developments in 1974 and Prospects

The downturn in industrial countries was as synchronized and rapid as the preceding boom. From an 8 per cent annual growth rate in the first half of 1973, the combined GNP of the seven major industrial countries[13] increased at an annual rate of only 3 per cent in the second half of the year, with GNP in some countries stagnant or even declining. In the first half of 1974, the combined GNP of the seven is estimated to have declined at the annual rate of 1½ per cent.

In virtually all of these economies, the automobile and construction industries have been the main sources of weakness. In contrast, steel, chemicals and other

Change in Trade Prices and Volumes

(Per cent change: 1973 over 1972)

	Unit values				Volume	
	Imports		Exports		Imports	Exports
	A	B	A	B		
Effective exchange rates declined						
United States	18.6	18.6	16.9	16.9	4.9	23.2
United Kingdom	28.4	25.7	12.6	11.3	16.4	14.4
Italy	27.5	27.1	13.9	13.8	12.7	4.1
Effective exchange rates appreciated						
Germany (Fed. Rep.)	5.2	27.0	1.0	22.0	7 4	18.1
Japan	20.8	36.6	9.2	23.7	28.3	4.7
Austria	2.9	22.2	3.0	23.2	10.3	10.7

A : Based on domestic currency.
B : Based on United States dollars.

basic material industries continued to enjoy strong markets. With two exceptions, all major industrial countries recorded a decline in oil consumption in the first four months of the year relative to the corresponding period of 1973. These declines ranged from 17 per cent in the Federal Republic of Germany to 6 per cent in Italy; only in Canada and Japan did consumption increase, by 6 and 10 per cent, respectively; in the seven combined, consumption declined by 6 per cent. The fall in demand can be attributed to three factors: a declining level of economic activity, a mild winter, and consumer response to higher prices.

Inflation accelerated at varying rates, averaging some 14½ per cent for the seven major economies in the first half of 1974. Commodity prices in general rose further in this period. However, a marked difference developed in the behaviour of food as against industrial raw material prices. Prices of agricultural raw materials, such as fibres and rubber, peaked out in January and have been declining since. Minerals and non-ferrous metal prices began weakening in May. The pressures on raw material prices, originating in reduced intake by industrial users, is being compounded by some decumulation of stocks. Prices of most foodstuffs, in contrast, were still higher in summer than at the beginning of the year, and many of them continued to rise as earlier harvest forecasts were being scaled down. The low level of inventories of most basic foods and feedstuffs, and a continuing urgent demand for food aid in many developing countries, suggest that food prices may remain strong this year and the next.

Increase in volume

In volume, exports of industrial countries appear to have grown at an annual rate of some 10 per cent in the first half of the year, up from approximately 8 per cent in the second half of 1973. Although their expansion rate in the first half of 1973 had been nearly 20 per cent, the contribution that exports made to sustaining the general level of economic activity was relatively even more important in the downswing than in the preceding boom.[11] The annual growth rate of the volume of imports into industrial countries, on the other hand, which had attained 16 per cent in the first half of 1973, declined by more than a half, to 7½ per cent, in the following six months, and was again halved, to 3½ per cent, in January-June 1974.[15] Expansion of exports by industrial to developing countries, stimulated by the increased foreign-exchange earnings of the latter countries in the last two years, accounts for the discrepancy in export and import growth rates. It is, in other words, a reflection of the recent swing of the terms of trade in favour of developing areas which continued and, indeed, was accelerated by the price increases in the first half of 1974.

Developments during the first half of the year indicated a dangerous polarization in the response of trade balances of the oil-importing countries to the oil-price increase. The trade surplus of the Federal Republic of Germany rose, despite the increased oil payments, to $8.6 billion (as against $13 billion for the whole of 1973), and the United States' net oil-import payment of $8.7 billion was almost offset by a trade surplus in other products. On the other hand, most other countries showed growing trade deficits, the largest being those of the United Kingdom, Japan and Italy—$8.4, $6.6 and $5.2 billion respectively. Among the major industrial countries, only Japan was successful in diminishing its overall trade deficit as the year progressed.

From the fragmentary data available, it appears that the value of exports by developing countries continued to grow rapidly in the first half of 1974. However, this was mainly due to the increased value of oil exports and of other raw material

TABLE III

Changes in the Main Components of Demand in the United States and Six other Major Industrial Countries*

(Billion dollars and percentages, at constant prices, seasonally adjusted)

		1972 (billion dollars)	1970 I	1970 II	1971 I	1971 II	1972 I	1972 II	1973 I	1973 II	1974 I
			Percentage change from previous half-year at annual rate								
GNP†	United States	1 155.2	—1.7	—0.2	4.1	3.7	7.3	7.3	6.9	2.7	—2¾
	Other Countries	1 121.7	6.6	4.6	3.9	4.6	5.3	6.9	9.3	3.5	—½
of which:											
Private consumption	United States	726.5	2.1	0	5.3	4.1	6.4	7.0	6,5	0.6	—2¾
	Other Countries	641.3	4.8	6.5	5.2	5.2	6.7	6.1	7.2	3.7	0
Private non-residential investment	United States	118.2	—3.5	—3.9	0.8	5.1	13.5	8.6	14.3	5.5	½
	Other Countries	153.2	0.3	—0.7	1.5	1.8	4.2	7.4	11.3	12.7	—½
			Changes as a percentage of GNP**								
Change in stock-building	United States	6,0	—1.6	0.6	—0.1	—1.1	0.4	1.0	—0.8	1.1	—1½
	Other Countries	10.0	0.6	—0.8	—1.5	—0.6	0.1	1.2	1.9	—0.7	—1½
Change in foreign balance	United States	—4.6	0.4	0.1	—0.5	—0.5	—0.6	0.6	1.1	1.4	¾
	Other Countres	13.8	0	—0.7	0.7	0.3	—1.1	0	—0.6	0.2	1½

*France, Garmany (Fed. Rep.), Italy, the United Kingdom, Canada and Japan.

†GNP or GDP at market prices; figures for countries other than the United States are converted into US$ at current exchange rates.

**The rates of change refer to changes in stockbuilding and the foreign balance expressed as a percentage of GNP in the privious period.

Sources: OEDD. *Economic Outlook*, Various issues and US Department of Commerce, *Survey of Current Business*.

deliveries contracted at the high prices prevailing in the second half of 1973 and first quarter of 1974. Such scattered information as is available on the exports of manufactures by developing countries does not permit any conclusions as to whether this flow accelerated or decelerated in the first half of the year. From end of 1973 up to May this year, the official reserves of developing countries increased by $13.3 billion, of which $11.4 billion accrued to the main oil-exporting countries.

Information available from the countries of the Eastern trading area indicates a steady expansion of industrial output, proceeding in Eastern Europe and the Soviet Union at close to the 7 per cent planned for 1974. The total trade of the area (i.e. including intra-area trade) can be estimated to have increased some 30 per cent in current dollar value during the first six months of 1974, the growth in the value of imports having probably exceeded that of exports.

It appears unlikely that the buoyancy of international trade recorded in the first half of 1974 could continue into the second half; indeed it seems that the lagged response of trade to the deceleration of general economic activity in the first half of the year will set very narrow limits to such recovery as can be expected in the second half. It was noted earlier that the dynamism of exports by industrial countries in the first half of 1974, exceptional in the context of a general deceleration of economic growth, did much to contain the effects of the "energy shock", i.e., the uncertainty as to supplies and price of oil felt at the beginning of the year. In early summer, however, a deceleration in the flow of exports became evident, and was presumably accompanied by an even more pronounced decline in the flow of export orders. The causes of this and the anticipated further decline are not difficult to find: (i) interruption of economic growth in the industrial areas (which account for more than two-thirds of world trade), brought about by capacity limitations and anti-inflation policies, entails a weakening of their reciprocal import-demand; (ii) the large adverse movement of the terms of trade of the oil—and food-importing developing countries, occurring at a time when the demand-prospects for their exports of industrial raw materials and manufactures are deteriorating, has begun to sharply limit their demand for imports of industrial products, the additional orders for investment and consumer goods placed by oil-exporting countries being not yet large enough to help offset this decline; (iii) a further weakening of demand OECD exports by the subset of countries (mainly around the Mediterranean) for which tourist receipts and wage remittances are traditionally important sources of foreign exchange, since they face not only the problem mentioned under (ii), but also a decline in those two sources of exchange earnings.

On this background, and with a growing tighness in all the main financial markets, some of which were showing signs of considerable strain by late summer, the prospects for an upturn of economic activity in the industrial areas in the second half of 1974 dimmed again. The volume of world trade will certainly increase much

TABLE IV

Trade Balance of Total Commodities and of Petroleum and Petroleum Products in Selected Industrial Countries

(Billion dollars)

			All commodities	Petroleum and petroleum products	Other commodities
Canada		1973	+1.89	+0.64	+1.25
	Jan.-May	1973	+0.72	+0.29	+0.44
	Jan.-May	1974	+0.39	+0.51	—0.12
Germany (Fedral Repubiic of)		1973	+12.31	—5.03	+17.34
	Jan.-May	1973	+3.82	—1.58	+5.40
	Jan.-May	1974	+8.61	—4.32	+12.93
Italy		1973	—5.59	—2.38	—3.21
	Jan.-May	1973	—2.08	—0.78	—1.31
	Jan.-May	1974	—5.23	—2.81	—2.42
Japan		1973	—1.38	—6.66	+5.27
	Jan.-June	1973	—0.50	—2.79	+2.29
	Jan.-June	1974	—6.64	—10.00	+3.36
Norway		1973	—1.53	—0.33	—1.20
	Jan.-May	1973	—0.56	—0.11	—0.45
	Jan.-May	1974	—0.91	—0.31	—0.60
Switzerland		1973	—2.09	—0.79	—1.30
	Jan.-June	1973	—1.02	—0.29	—0.74
	Jan.-June	1974	—1.41	—0.67	—0.74
Sweden		1973	+1.53	—1.01	+2.54
	Jan.-April	1973	+0.47	—0.22	+0.69
	Jan.-April	1974	+0.32	—0.64	+0.96
United Kingdom		1973	—8.30	—3.28	—5.02
	Jan.-June	1973	—3.43	—1.51	—1.92
	Jan.-June	1974	—8.35	—4.64	—3.71
United States		1973	+1.76	—7.18	+8.94
	June-May	1973	—0.81	—2.39	+1.58
	Jan.-May	1974	—	—8.73	+8.73

Source: National Statistics.

less than in 1973. Given the relatively strong trade expansion in the first half of the year, the annual increase may fall into the range of 6-8 per cent. Further increase in unit values of world trade should be expected, for even if commodity prices decline somewhat in the second half of the year, it is unlikely that the rise registered in the first half could be fully offset. Furthermore, as prices of manufactures entering world trade have risen at an accelerated pace during the first six months of 1974, there is little prospect of them levelling off in the next two quarters.

It is obvious that inflation, and the adjustment to the higher relative price not only of crude oil but of energy in general, will continue to preoccupy national and international economic policy in the remaining part of the year and, on the assumption that crude oil prices will not be changed, for several years to come.[16] Each of these problems is difficult enough in itself, and in conjunction they compound each other. Analysis of the nature and inter-connexion of these problems may therefore be useful as a basis for a medium-term outlook on the world economy.

The main features of the problem of inflation have already been discussed. The adjustment to higher energy cost has two aspects. The more urgent one, though not short term in nature, is the payments aspect. In principle, this is only a technical problem, theoretically not difficult to solve. Its practical difficulties can hardly be overestimated, however, since its solution consists in coordinating economic policies of a number of oil-importing countries for an effective management of their collective current-account deficit.

current estimates

Current estimates of this year's collective deficit, which results from the inability of the oil-exports to spend all of their proceeds on current account items cluster around $50 to $60 billion. How is this amount going to be distributed among the oil-importing countries? Some of them are better placed than others to supply the goods and services demanded by the oil-exporters and/or to receive the investment of the surplus earnings of the latter. By and large, these two advantages tend to go together and the countries enjoying them will be in a strong balance-of-payments position, perhaps absolutely strong, certainly relative to other oil-importing countries. Countries in the weakest balance-of-payments position will thus show two types of imbalance, running current account deficit with the strong oil-importing countries as well as with the oil-exporters. The former type of imbalance can, and indeed soon must, be corrected by the orthodox methods of restraining domestic demand and, making a larger part of national output available for export or import-substitution. Since the countries in relatively strong payments position are committed to resolutely anti-inflationary policies for the second half of the year, the anti-inflationary policies of countries in relatively weak payments position will have to be even more stringent in order to improve their current accounts.

In contrast, the second type of imbalance, the current account deficits with the oil-exporters, cannot be corrected in this way, and any attempt to do so would threaten a cumulative downturn of trade in general. The distinction of these two types of imbalance, each to be acted on differently, is clear in theory but difficult in practice. Indeed, the problem can only be resolved through a continuing close policy coordination between oil-importing countries in relatively strong and relatively weak payments positions. While the need to borrow and maintain their credit standing compels the latter group of countries to tighten their anti-inflation policies, countries of the former group should actively encourage the recycling, through capital and/or current account, of the oil funds they receive.

real adjustment

The second aspect concerns the "real" adjustment to the higher cost of energy, in other words, the actual changes in industrial structures, both within and among nations. The ultimate response of the consumers as well as producers to this change in relative prices will tend to bring about in each country a relative decline of some industries and expansion of others. The sum of all these responses will represent an extensive change in the investment pattern, and the carrying out of the new investments so indicated will entail organizational problems much more demanding than those present in a normal cyclical upswing in investment activity. The difficulty of this adjustment is increased by the fact that it has to be carried out in an inflationary environment and under polices aiming to restrain inflation both of which increase the possibility of specific errors. For example, erroneous investment decisions may be made, or correct ones postponed, due to uncertainty about relative prices of various kinds of fuels and energy in the future; the strains imposed on the financial system by the anti-inflation policy as well as by the preference of oil-exporters for certain types of financial investment, may, in combination with other institutional rigidities, lead to (temporarily) inefficient distribution of capital among the major sectors of individual economies; and, unless there is a strong political leadership to explain and marshall support for the necessary re-ordering of social priorities, the adaptation conducted under strong anti-inflationary policies could imply a considerable degree of social friction.

lower GNP growth

In the next few years, therefore, rates rates of GNP growth in the main industrial countries may be expected to be lower than those recorded in the recent past, and the rates of unemployment somewhat higher. If the present payments problems are resolved, there is little need to fear a protracted *decline* in economic activity as the general picture contains elements of considerable strength.

By itself, the increase in the relative price of energy sets up powerful incentives to invest in the development of alternative energy sources and, at the same time to effect energy savings in existing facilities, whether residential, commercial or industrial, as well as in the transportation system. Preliminary estimates of the total amount of such investments needed by the oil-importing countries in the coming decade range from one trillion dollars upward. The increased income of the oil-exporting developing countries; and the resulting expansion of their dematnd is also an element of strength for the industrial economies, moreover one that can be cultivated and increased by appropriate policies.

On the other side of the ledger must be listed the repercussions of this adjustment in industrial countries on other areas. In the period of reduced aggregate growth caused by the inherent difficulties of the required structural adaptation, the savings ratio of the industrial economies may decline (in a period of less than full employment both social security funds and many households become dis-savers); and since the adaptation itself is likely to be capital-intensive, involving a substitution of reproducible capital for non-renewable cheap energy, the global economy may indeed experience a period of relative capital shortage. The implications of this capital shortage for the developing countries give cause for urgent concern.

First, the developing economies with their generally lower savings ratio, will also face the need for large capital investment in energy saving and in the development of alternative energies, and this will mean less capital for investment in other sectors. Second, the slower growth and the adjustment strains in the industrial economies may limit, for a time, their demand for and capacity to absorb imports of both industrial materials and manufactures from developing countries. Third, the capital shortage which may accompany the adjustment of the industrial economies is likely to limit further the flow of private capital and development aid from the latter to the developing areas. The adjustment difficulties experienced by industrial countries could thus limit or even reduce the total amount of capital available for investment in developing countries.

Whether the momentum of development which the low-income areas attained in the 1960's and the early years of the 1970's can be maintained in the face of these problems may indeed be the crucial question facing the world community for the remainder of this decade.

magnitude of problem

The magnitude of the problems facing the world economy is a challenge to political leadership. At the domestic level, the problems have to be explained and public support marshalled for the difficult decisions that lie ahead. At the international level, there has to be convincing evidence that common problems are being tackled in a cooperative way. The OECD Declaration was an important step in this direction, but its pledge to avoid negative actions has to be followed by commitments to positive actions to strengthen international economic cooperation.

The multilateral trade negotiations, soon to enter into their substantive phase, offer an important opportunity for such a joint positive action. They can contribute to the solution of the major problems discussed in these pages in three distinct ways.

First, the re-affirmation of the stability of the international trade system by the large number of governments coming together to negotiate will strengthen general confidence which is a necessary condition of economic recovery, speedy adjustment and further progress. Second, new trade liberalization measures will indicate new opportunities for productive investment, and thus reduce some of the uncertainty inherent in the period of extensive industrial adaptation which the oil-importing economies are entering. Finally, at a time when pressing social and economic needs may be constrained by a relative shortage of resources, it is of paramount importance to take advantage of the opportunities, provided by trade liberalization, to increase through trade expansion the efficiency with which existing resources are used.

References:

1. United States, Canada, Japan, the Fed. Rep. of Germany, France, Italy and the United Kingdom.

2. The Introduction of floating exchange rates increased the difficulties involved in compiling foreign trade statistics, whether in value or volume terms.

3. Developments in the petroleum market, coming late in the year, are covered in the second Sub-Section of this chapter dealing with 1974.

4. Data sources: *Federal Reserve Bulletin*, April 1974; *Statistische Beihefte zu den Monatsberichten der Deutschen Bundesbank*, Reihe 4, June 1974.

5. See OECD *Economic Outlook*, July 1974.

6. Among those recording the largest price increases were grains, fishmeal, oilseeds, cotton, rubber, non-ferrous metals and, near the end of the year, petroleum.

7. The eleven countries are the United States Canada, Japan, Belgium, France, the Federal Republic of Germany, Italy, Netherlands, Sweden, Switzerland and the United Kingdom. In 1973 they accounted for 76 per cent of world output outside the Eastern trading area, and 63 per cent of world trade.

Domestic money supply figures for individual countries were taken from the IMF's *International Financial Statistics*; when data on "quasi-money' are included, the figures display a similar pattern over the period 1961-69 and 1970-73. If the Eurocurrency market is added to the narrow definition of money, the 1961-69 figure is 7.5 per cent, while the increases for 1970-73 are 12.7, 18.1, 17.6, and 18.8 per cent respectively (the first Eurocurrency figure is for 1964). Aggregating money supplies of different countries presents certain conceptual problems, and the figures should be taken only as indicating orders of magnitude.

8. In a few instances the inflow of foreign funds was so large that the central bank found it technically impossible to fully "sterilize" it.

9. See F. Hirsch and D. Higham, "Floating Rates—Expectations and Experiences", *The Three Banks Revtew*, June 1974, pp 3-34.

10. In this context it should also be noted that the initial operation of the system was undoubtedly hampered by the lack of practical experience on the part of firms, dealers, commercial banks, and central banks with widespread floating rates (as evidenced, for example, by the substantial foreign exchange losses incurred by some commercial banks).

11. By July 6, 1973 the Deutschmark, relative to the dollar, was 30 per cent above the central rate agreed to in February and 42 per cent above the Smithsonian parity, by January 8 of this year the discrepancy was down to 12 per cent above the Smithsonian rate.

12. There is little reason to believe that the continuing rapid expansion of international trade occurred *because* of the monetary uncertainties. Some evidence exists that monetrry uncertainties stimulated trading in certain commodity markets as asset holders sought protection from inflation and or exchange rate changes. The relative importance of this demand is not clear, but it is unlikelv that it accounted for much of the overall increase in the volume of trade (with the possible exception of one or two countries), in part because the increased demand for commodities affected prices more than quantities, and in part because many of the asset-related transactions were "paper" transactions in which titles to current or future stocks, rather than the stocks themselves, flowed to the home countries of the new owners.

13. United States, Canada, Japan , the Federal Republic of Germany, France, Italy and the United Kingdom.

14. In the first quarter of 1974, the United States GNP declined by $ 11.6 billion, while the net export surplus (of goods and services) rose by $ 0.9 billion; in the Federal Republic of Germany total GNP expanded by one billion dollars and the net export surplus by $10.5 billion.

15. See OECD, *Economic Outlook*, July 1974.

16. Taking a somewhat longer view, there is reason to question the assumption that recent developments have resulted in a *permanent* increase in the relative price of energy. On the one hand there is the obvious fact that current petroleum prices in the major producing countries have no relation whatever to costs of production, divorced from the element of rent, which by itself introduces a considerable degree of uncertainty. A second, and more fundamental, point concerns substitute sources of energy. When petroleum was cheap, there was little incentive for either private industry or governments to invest in a search for alternative energy sources and it is not surprising that the rate of technological advance in this area has been slow. Now that petroleum is not cheap, massive energy research programmes are getting underway, and there are no *a priori* reasons for supposing that technological breakthroughs in this area will, after some lead-time, by any less impressive or revolutionary than were those attained in other areas in which a substantial amount of resources had been devoted to research and development.

MOVING FINGER

It is good that our rulers should occasionally do some heart-searching or soul-searching. I confess I do not know whether soul-searching has got anything to do with religion, but I suppose that those who believe in religion believe in soul and *vice versa*. I confess also that I do not know whether religion has anything to do with praying at temples, churches, mosques, synagogues or other places of worship but I have noted that Mrs Gandhi goes to temples sometimes, which means possibly that she gets religion on occasions which, in turn, may conceivably suggest that she does some soul-searching now and then.

When Mrs Gandhi visits temples, she does so not only in style but also to the manner born. I still remember the vivid accounts I heard of how she conducted herself before the sanctum sanctorum when she visited the Venkateswara temple at Tirupati some time ago. An enthusiastic observer described to me how utterly absorbed she seemed to be in the contemplation, presumably, of the Infinite. In the last few days we were treated to newspaper reports of her visit to another famous shrine, the Kamakshi temple at Kancheepuram. *The Hindu* said that *archana* was performed to the deity on her behalf. The usual temple practice is for the *nakshatra* of the worshipping beneficiary to be recited in the course of the supplication to the deity. It should be interesting to know whether this was done on this occasion and, if so, what Mrs Gandhi's *nakshatra* is. In other words, do her personal papers include a horoscope?

The 'Times of India' with its nose for the news behind the news, has just informed its readers that Mrs Gandhi's temple-going need not surprise anyone since she is not an agnostic as her father was. I am not so sure that Nehru was an agnostic either. When he was alive, I remember again some newspaper saying that he himself preferred to be known as a pagan. According to the C.O.D., 'pagan' could mean 'heathen'; it could also mean 'unenlightened person.' The latter meaning, it may be assumed, is not relevant to the context. We are therefore left with 'pagan', meaning 'heathen.' Returning to the C.O.D., 'heathen' means one who is neither 'Christian, Jewish nor Mohammedan.' This certainly helps us to know what Nehru was not; he was not Christian, Jewish, or Mohammedan. It does not follow, however, that he was an agnostic. He could quite possibly have been both a pagan and a Hindu after all.

When we turn to his daughter, we seem to be on less speculative ground, thanks to *The Times of India*. It quotes Mrs Gandhi as telling Ela Sen, one of her recent biographers, that she believes in the Hindu concept of a "supreme intelligence directing all." The fastidious, however, may well wonder whether this in itself proves that Mrs Gandhi considers herself to be a Hindu, practising or, for most of the time, non-practising. A "supreme intelligence directing all" is all right, but it is by no means clear whether Mrs Gandhi meant that this intelligence was necessarily divine. So far as India's affairs, at any rate, are concerned, I have a suspicion that Mrs Gandhi's concept of a "supreme intelligence directing all" may not have anything to do with religion or, indeed, anything extra-terrestrial.

Writing this two days after Mrs Gandhi's visit to Kancheepuram where, besides worshipping at the Kamakshi temple, she also did some meditation in the immediate presence of the Sankaracharya of Kamakoti Peetam, I find that there is no finality yet in newspaper accounts of her meeting with him. The Sankaracharya has been observing *maunavrata* for some time and the question is whether he broke his silence to converse with Mrs Gandhi. According to a PTI report which appeared in *The Times of India* on the day following Mrs Gandhi's visit to the Sankaracharya, "the Acharya and the prime minister conversed in Hindi according to *ashram* sources." The report in the issue of *The Hindu* of the same date, however, said that "according to *ashram* sources the saint, who has been observing a vow of silence for the past one month, smiled benignly and offered his blessing by a gesture of his hand." On the following day, an official spokesman in New Delhi indicated that the Sankaracharya did converse with the prime minister although all that he could specifically state was that, *when the prime* minister was having her wholly private audience with the Sankaracharya, those who were on the other side of the plaited partition could hear snatches of the conversation, but they could not ascertain whether the Sankaracharya spoke in Hindi or English. As for the prime minister herself, all that she permitted herself to say was that it was a good meeting which was not saying much, but which could also be as much as others needed to know. Even a prime minister does not cease to be a private person and must therefore be permitted her private moments.

Incidentally, all newspaper reports are in agreement that Mrs Gandhi spoke to the Sankaracharya on the difficult problems the country was facing and asked his blessings for the well-being of the nation—and got them. She, apparently, has given up hopes of securing the services of the wizard she said she needed for setting right the national economy. It is possible that Mr Chavan has entered a caveat.

Mr Alastair Burnet, who has been the editor of *The Economist* since 1965, is taking over the editorship of *The Daily Express*. There is no doubt that Mr Burnet has been an innovative and forceful editor of *The Economist*. He has also contributed a great deal to making it more lively in style and substance. Since readability is certainly the first virtue even if it may not be the first and last virtue of any publication, *The Economist* and its readers do owe a great deal to its present editor.

At the same time his reactionary attitudes towards domestic and international affairs, whether economic or political, have tended to alter the character of *The Economist* as an essentially liberal journal in ways which are becoming increasingly distasteful. It could be argued perhaps that a journal such as *The Economist* should be judged primarily in terms of its expertise in its own field. Even here Mr Burnet's custodianship does not seem to have made for optimum standards of responsibility.

I shall give only one instance. Early last year, I think, *The Economist* seriously urged the Japanese government to adopt deliberately a policy of domestic inflation as a means of reducing that country's balance of payments surplus. It was argued monstrously enough that Japan had an obligation to inflate because its major trading partners were finding it difficult or impossible to control their own domestic inflation.

VB

TRADE WINDS

Bankers' Dilemma

INTERNATIONAL BANKING has received a jolt or two, thanks to the temptation offered by the disturbed foreign exchange market to the unscrupulous bank officials to indulge in speculative forward transactions. A branch of the Lloyds Bank International in Lugano, Switzerland, was recently found to have suffered a loss of £33 million. It is alleged that an official of this branch had been carrying on forward operations mainly in Deutsche Mark and burnt his or, rather, the bank's fingers due to the easing of this currency vis-a-vis the US dollar. Lloyds have promptly pledged themselves to make good this loss and the bank of England has given its consent to the transfer of funds to Switzerland. Fortunately, Lloyds International could draw on its expected profits during the year of £70 million.

Earlier in the year, the German Bank, Herstatt had been forced to put up its shutters with consequences far more serious to its constituents. This bank which was the largest private bank in that country was allowed to sink rather unceremoneously after it was discovered that an amount equivalent of £100 million or more had been lost by its officials in currency speculations.

At one stage Herr Hans Gerling, who controlled over 80 per cent of Herstatt, was told that the losses might be around £10 million and he hoped that these would be made up from the bank's reserves. Later on, however, a confession from the head of the foreign exchange department of his bank revealed that the losses were beyond £78 million. Herr Gerling was prepared to underwrite the deficit himself to the extent of £40 million, equivalent to his private fortune. But still a similar amount was left which the bankers were prepared to raise only after they had laid their hands on his insurance companies. Herr Gerling did not offer that.

It appears that financial controls within the banks have not kept pace with the growth of foreign exchange dealings and the wide fluctuations in the foreign exchange rates could cause considerable loss to a bank. Consequently, the Bundsbank is now insisting that the foreign exchange position of each bank should be made available to it. The idea being that foreign exchange transactions should not grow out of proportion to the size of the capital of the bank.

State Loans

Thirteen state governments have announced the issue of new loans bearing an interest at six per cent per annum for amounts aggregating to Rs 75.25 crores. They are (with the amounts of loan in crores of rupees in brackets) : Andhra Pradesh (12.75), Gujarat (1), Himachal Pradesh (1.25), Karnataka (6.75), Kerala (1), Maharashtra (9.75), Manipur (3.25), Meghalaya (3.50), Nagaland (5.25), Rajasthan (2.25), Tamil Nadu (8.75), Tripura (1.50), and Uttar Pradesh (18.25).

The new loans, which take the total borrowing by 21 state governments to a record of Rs 280.50 crores by way of notified amounts alone, will open for subscription on September 27 and close on September 30, or earlier without notice as soon as subscriptions approximate to the amount of each issue. All the loans will be issued at Rs 99. All the state governments reserve their right to retain subscription up to ten per cent in excess of the notified amounts. This is the second issue by Andhra Pradesh, Gujarat, Karnataka, Kerala, Maharashtra, Rajasthan, Tamil Nadu and Uttar Pradesh. Payment of interest will be made half yearly on August 27 and February 27. Interest in respect of all loans will be liable to tax under the Income Tax Act, 1961.

Licensing for Conductors

The union government has decided to withdraw AAC/ACSR Conductors from the purview of exemption from licensing provisions of the Industries (Development & Regulation) Act, 1951. However, small scale units will continue to remain exempted from licensing provisions. The withdrawal came into effect on August 29, 1974. The industrial undertakings which have already come into existence without having obtained an industrial licence under the provisions of the I (D &R) Act, 1951, or in respect of which effective steps have been taken before August 29, 1974, will be required to obtain 'carrying on business' licences within a period of six months. Parties required to submit applications for COB licences should do so in form 'EE' within three months from August 29, 1974.

Iron Ore Mining

The iron ore mining industry is to continue as a public utility service for a further period of six months from September 4, 1974, according to a government declaration. The government is of the opinion that it is in the public interest to extend the period. Earlier the Industry was declared a public utility service on March 4, 1974.

NOTICES

NOTICE

THE DELHI CLOTH & GENERAL MILLS CO. LTD.

In terms of Rule 4A of the MRTP Rules, 1970, it is hereby notified that The Delhi Cloth & General Mills Company Limited, Bara Hindu Rao, Delhi-110006 propose to make an application under Section 22 of the MRTP Act, 1969 to the Central Government in the Department of Company Affairs, New Delhi, in regard to its proposal to manufacture Synthetic Detergents with a capacity of 36,800 tonnes per annum at Kota in Rajasthan involving an estimated investment in Land, Building, Plant and Machinery of Rupees 325 lakhs approximately.

Any person interested in the matter may, if he so desires, intimate to the Central Government in the Department of Company Affairs, within 14 days of the publication hereof his views with regard to the proposal contained in this Notice and also the nature of his interest therein.

THE CALCUTTA ELECTRIC SUPPLY CORPORATION LTD

(Incorporated In England.)

7.3/4% Debenture Stock 1980 Interest for the half year ending 14th October, 1974.

Notice is hereby given that Interest at the rate of Rs. 38.75 P. (Less Indian Income Tax) per Rs. 1,000/- of Stock will be paid on 15th October, 1974 to Debenture Stockholders registered in the Books of the Company on 2nd October, 1974. Application for transfers received at the Company's Office at Victoria House, Post Box 304, Chowringhee Square, Calcutta, upto 2nd October, 1974 will, if otherwise satisfactory, be registered at that date for the purpose of participation in the above Interest.

Debenture Stock Transfer Book will be closed from 3rd October, 1974 to 14th October, 1974 both days inclusive.

By order of the Board
S.K. Niyogi
Secretary

Victoria House,
Calcutta-1
10-9-74

Fuel Energy Committee

India's energy requirements will increase nearly five-fold in 20 years from 197 million tonnes coal equivalent (MTCE) in 1970-71 to 900 MTCE in 1990-91, according to the Fuel Energy Committee whose final report is now before the government. The energy requirements are projected to increase substantially in the current and sixth Plans (371 MTCE by 1978-79 and 600 MTCE by 1983-84) but the rate of increase will decline in the seventh Plan. In the context of the continuing oil crisis the committee envisions a crucial role for coal as the primary source of energy in the next three decades and even afterwards. In 1970-71 of the energy requirement of 197 MTCE, coal provided 72 million tonnes. The committee has worked out three different projections on the relative requirements of coal, oil and power. One projection assumes that the relative mix of the various sources will be more or less the same as at present. The second proceeds on the basis of a sharp cut in oil consumption, and the third is based on a compromise between the first two sets. It is assumed that in conformity with the experience of western countries the ratio between energy requirement and the GNP will decline in subsequent years.

Free Trade Zone in Calcutta

The details for the actual setting up of a free trade zone near Dum Dum in Calcutta are now being worked out. The West Bengal government has recently submitted to the union ministry of Commerce data for this project. This was stated by Mr A.C. George, deputy minister of Commerce recently. The minister added that the project report on this proposal was received in April 1973 from the West Bengal government. The free trade zone was proposed to be set up in an area of 400 acres in Salt Lake near Dum Dum, for the manufacture of a number of products for exports, such as stainless steel cutlery, hand and small tools, builder's hardware, finished leather, readymade garments, scientific and laboratory equipment.

Inter-State Task Force

A standing committee has been appointed by the union ministry of Industry to examine the problems of industry in the states of Punjab, Haryana and the union territory of

6 Per cent State Government Loans, 1984

	State	Amount of Loan (in crores of Rs)
1.	Andhra Pradesh	12.75
2.	Gujarat	1.00
3.	Himachal Pradesh	1.25
4.	Karnataka	6.75
5.	Kerala	1.00
6.	Maharashtra	9.75
7.	Manipur	3.25
8.	Meghalaya	3.50
9.	Nagaland	5.25
10.	Rajasthan	2.25
11.	Tamil Nadu	8.75
12.	Tripura	1.50
13.	Uttar Pradesh	18.25
	Total	75.25

*Second Issue.

All the above loans will be issued at Rs 99.00 per cent and will open for subscriptions on Friday, 27th September, 1974 and close on Monday, 30th September, 1974 or earlier without notice as soon as subscriptions approximate to the amount of each issue. All the State Governments reserve their right to retain subscriptions upto ten per cent in excess of the notified amounts.

The loans will be redeemable at par on 27th August 1984. Interest on the above loans for the period 27th September 1974 to 26th February 1975 inclusive will be paid on 27th February 1975 and thereafter payment of interest will be made half-yearly on 27th August and 27th February each year. Interest in respect of all loans will be liable to tax under the Income-tax Act, 1961. Interest on Government securities along with income in the form of interest or dividends on other approved investments will be exempt from Income-tax subject to a limit of Rs 3,000/- per annum and subject to other provisions of Section 80L of the Income-tax Act 1961.

The value of investments in the Loans now issued together with the value of other previous investments in Government securities and the other investments specified in Section 5 of the Wealth Tax Act, 1957 will also be exempt from the Wealth Tax up to Rs 1,50,000/-.

Subscriptions may be in the form of CASH/CHEQUE.

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

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

(i) Branches of the Subsidiary Banks of the State Bank of India conducting Government treasury work except at Hyderabad; and

(ii) Branches of the State Bank of India at places where there is no branch of its Subsidiary Banks conducting Government treasury work;

Applications for Himachal Pradesh, Kerala, Meghalaya and Nagaland State Loans will also be received at treasuries and Sub-treasuries in the State of Himachal Pradesh, Kerala, Meghalaya and Nagaland respectively at places where there is no branch of the State Bank of India or its subsidiaries conducting Government treasury work. Applications for Uttar Pradesh State Loan will also be received at the District Treasury, Chamoli.

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

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

Delhi. This standing committee will go into the problems being faced by the industries and will meet every two months to make the appropriate recommendations to the union government. It will examine the demand and supply of scarce raw materials, power situation and problems of transportation and finance.

Santa Cruz Export Zone

The first consignment of exports from the Santa Cruz export processing zone near Bombay was launched on September 1. The zone was set up two years back in an area of 100 acres with a provision for accomodating nearly 100 units, exclusively for production and exports of electronic equipment and components. Five units from the zone are starting their export operations.

The Santa Cruz export processing zone, which has been set up with the help of the Trade Development Authority, Department of Electronics and the government of Maharashtra, has a target of annual exports of Rs 50 crores within three years. Facilities available to the manfacturers and exporters in the zone are: duty-free import of capital goods and equipment from preferred sources; exemption from customs and additional (countervailing) duty on raw materials, components, consumables, spares, tooling and packaging materials—imported; exemption from central excise duties and other levies on products manufactured within the zone; and capital goods, equipment, raw materials, components, spares, tooling and packaging materials supplied to the zone from the rest of the country are treated as exports and are eligible for all the concessions such as cash assistance, duty drawbacks etc, as are available to units in the Domestic Tariff Area exporting out of India.

Release of Sugar

The union government has ordered the release of 260,000 tonnes of sugar for October, 1974. It will consist of 180,000 tonnes for levy and 80,000 tonnes for free sale.

IFC

The Industrial Finance Corporation of India will be issuing cash-cum-conversion bonds for Rs 10 crores to augment its resources. The 6 per cent bonds 1984 are fully guaranteed by the central government as to repayment of principal and payment of interest and are approved securities under the Indian Trusts Act, the Insurance Act and the Banking Regulation Act. The issue price will be Rs 99 for every Rs 100 of the bonds applied for. The IFC also announced that its 4½ per cent bonds 1974 due for redemption on September 28, 1974 will be accepted for conversion into new bonds. The list will open on September 28 and will close on October 24, 1974 or earlier as soon as the issue is fully subscribed.

IFC has also raised its lending rates consequent upon the increase in Bank Rate. Its lending rate of interest on rupee loans would be 11.25 per cent instead of 9.5 per cent a year charged earlier. The rate of interest on rupee loans to eligible industrial projects in notified backward districts/areas would be 9.5 per cent a year instead of 8 per cent a year. The revised rates of interests are, however, subject to a rebate of one per cent a year for punctual repayment instalments of principal and payment of instalments of interest.

Interest chargeable on soft loans granted to jute indutry, export-oriented cotton textile mills and hotel projects would be 11.25 per cent a year instead of 9.5 per cent per year charged earlier. The revised rate is subject to a rebate of two per cent a year for punctual repayments of instalments of principal and payment of interest. The revised rates of interest have been made applicable to all rupee loans sanctioned on or after July 30, 1974.

The IFC had to step up its rate of interest pursuant to the increase in the Bank Rate from 7 per cent to 9 per cent a year effective from July 23, 1974 and consequential increase in the rate of interest on rupee loans charged by the Industrial Development Bank of India from July 27, 1974. IFC's interest hike follows approval by IDBI.

Turbine by BHEL

The Bharat Heavy Electricals, Hardwar, has successfully tested its fifth 200 MW steam turbine meant for Ukai thermal power station in Gujarat. One 200 MW set is capable of generating enough power to light nearly one million homes. The manufacture and design of the turbine incorporates the latest technology and materials used in this type of equipment anywhere in the world. The unit has very high efficiency and very low value of heat rate.

The turbine consists of nearly 52,000 components precisely fabricated, machined and assembled and involves intricate technological operations and process.

Governing system of the turbine automatically maintains the speed within four per cent of rated speed. The turbine is protected against the dangers of overspeeding, axial shift, poor vacuum and lubrication failure by complex automatic protection system.

Economic and Social Commission

The Economic Commission for Asia and the Far East (ECAFE) officially changed its name recently to the Economic and Social Commission for Asia and the Pacific (ESCAP).

Assistance from UK

An agreement for a loan allocating Rs 56.9 crore (£30 million) of British assistance to India was signed in New Delhi recently. The loan, the UK-India Maintenance Loan 1974, No. 2, provides for the import from Britain of non-project goods. Among these are raw materials, spare-parts and components required to service India's agricultural and industrial production. The loan, like all British loans to India since 1965, is free of interest and service charges and repayable over 25 years, with no repayment due during the first seven years. This is the first instalment of the £7.5 mission pledged by Britain for 1974-75 at the Aid-India Consortium in June this year.

Aid from Japan

India and Japan have signed an agreement for setting up the Rs 138 crore fertiliser plant at Bhatinda in Punjab. The foreign exchange component of the project is Rs 53 crores and the plant will produce 1,550 tonnes of urea a day. The erection of the plant is expected to be completed in 36 months.

German Assistance for Trade Fair

The German Chambers of Commerce and Industry help businessmen from developing countries to gain a foothold in the W, German market. For four International Trade Fairs in the Federal Republic of Germany, the Chambers are setting up an information stand equipped with experts on marketing, import and export regulations, customs laws and statistics.

As many as 38 countries from the Third World received assistance from the federal government in 1973 for participation in trade fairs and exhibitions in West Germany. Thereby exporters of developing countries are supported in finding a market for their products in and to establish contacts with possible buyers from all over the world. In 1974, this country will receive assistance for participation in five different trade fairs to be held in Cologne, Munich and Berlin.

Technical Team for Yemen

This country may provide technical consultancy to Yemen for the establishment of caustic soda and soda ash plants there. A technical team, led by Dr N. P. Agarwalla of Engineers India Ltd, left for Yemen recently. The other members of the team are Mr A.K. Bose of DGTD and Mr G. P. Pillay of Travancore-Cochin Chemicals.

Tata Buses for Afghanistan

A fleet of 100 Tata buses will be supplied to Afghanistan, and that will mark the first transport fleet to be operated in that country. The value of the export order that TELCO has bagged is Rs 1.13 crores. This is the first big order placed by Afghanistan with an Indian manufacturer for the supply of commercial vehicles. The payment will be in US dollars.

Names in the News

Mr Murli Dhar Dalmia, Chief Advisor of Texmaco Ltd and Executive Director of Birla Mills, Delhi, has been elected the President of the North India Cotton Textile Mills Association (NICTMA) for the year 1974-75. Mr Dalmia commands about five decade's experience in industrial management and is associated with a large number of business, commercial and educational organisations including two leading newspaper publishing companies. He is a pioneer in establishing joint industrial ventures in south-east Asia.

Raja Ajit Narayan Deb, a veteran Congress leader and social reformer, has been appointed Chairman of Oil India Limited in succession to Mr S. P. Goswami, who resigned on his election to Rajya Sabha. The board of Oil India Limited at its meeting held in New Delhi on September 6, 1974, elected Raja Ajit Narayan Deb as a member of the Board and Chairman. He was elected to the Assam Assembly in the first election held in 1935 and worked for the Congress. He continued as a member of the state assembly until the mid-sixties. He served as a member of the Assam Public Service Commission 1968-70.

Readers' Roundtable

Anomaly of Import Policy

Sir—It is reliably learnt that Hindustan Steel, as the canalising agent for imports of steel in India, has negotiated the purchase of nearly 30,000 tonnes of carbon and special grade wire rods from Japan. It is further reported that it has been able to collect release orders from Indian consumers to the extent of 20,000 tonnes only and is looking for customers for the remaining quantity.

It is a well-known fact that substantial installed capacity for this material has been installed in the country by reputed manufacturers such as the Bhilai Steel Plant, Mukand Iron and Indian Steel and Wire Products. It is also reported that these units are carrying a heavy inventory of high carbon wire rods (present combined stock estimated at 15,000 tonnes) and are facing difficulties in marketing their products.

It is understood that these manufacturers have been pressing for the banning of imports. There is one more anomaly therefore in our import policy which is framed without any relevance to indigenous production or domestic requirements as reflected by the limited surrender of release orders by actual users.

Such wheeler-dealer attitudes on the part of HSL will not only result in avoidable drain of scarce foreign exchange (nearly Rs 10.5 crores) but will also result in pushing up the prices of end-products of the engineering industry because of higher prices of imported inputs. What is more, indigenous capacity will be rendered idle or forced to switch over to lower valued products.

New Delhi

A CORRESPONDENT

Pilots' Strike

Sir—I am a regular reader of your magazine and your editorials have some depth in them. Unfortunately in your editorial "Striking It Hot" in the issue dated August 30, like most of the editors of other magazines but only a little belatedly, you have opined that the Air-India pilots' strike has to be struck down firmly as was the railway strike.

All of you people overlook that the Indian Pilots Guild is not merely a labour union but also a professional body of expert fliers—they are second to none in the world—who really have a say in the operational safety. Therefore, their rightful demand that they should be consulted when a particular pattern of operations is introduced ought to be given due consideration.

These pilots do not demand more pay or perquisites, but as the people primarily and ultimately responsible for the safe take-off and landing of aircraft, they quite genuinely demand that their views on the new pattern of operations should be given due weight and it is unfair on the part of the management as well the government to stand on false prestige or try to stain the pilots' image by misleading propaganda.

Madras

C. RAMAKRISHNAN

COMPANY AFFAIRS

Disparity in Yields

THE UNION government announced on September 12 its decision to raise with immediate effect the rate of dividend on all new preference shares and on debentures to be issued under the authority of the Capital Issues (Exemption) Order, 1969. The dividend on preference shares has been raised from 9.8 per cent to 11 per cent per annum. This is free of companies tax but subject to deduction of taxes at the prescribed rates. The rate of interest on debentures and bonds has also been stepped up with immediate effect from 8.5 per cent to 10 per cent for a term up to and including seven years and 10.5 per cent for a longer period.

The upward revision in return on preference shares and debentures has brought into sharp focus the disparity existing in respect of investment in equity shares on the one hand and in preference shares and debentures on the other. Under the dividend ordinance no company can distribute a dividend of more than 12 per cent on the face value of the equity shares as compared to 11 per cent now allowed on preference shares. There is thus a difference of hardly one percentage point in yield and this can hardly compensate for the risk involved in equity investment. With the continuous erosion in share values there has already been a marked shift in share markets in favour of fixed yielding securities and public deposits rather than in equity shares. In the changed circumstances even institutional investors such as the Unit Trust are realigning its investment policy and is going in more and more for fixed income securities and deploying its funds in short term money market instead of entering, as usual, the equity market in a big way. With the investor's and operators thus losing confidence in equities and developing a tendency to sell whatever is possible and shift to other forms of remunerative and safe investments, it is suggested that the government instead of scrapping restraints on equity dividends altogether should at least consider seriously either to revise upward the ceiling of 12 per cent on equity dividends or liberalise the portion of profit available for distribution.

Gwalior Rayon

Gwalior Rayon Silk Mfg. (Wvg) Co Ltd has received the approval of the government for setting up a bright bleached viscose staple fibre plant in Thailand with a capacity of 24 tonnes per day. The company's equity participation in this joint venture will be in the form of supplying of machinery and equipment. Further equipment will be supplied against deferred payment. The company will also enter into an agreement for the supply of technical services over a continued period of seven years. The work on the project will commence shortly. Besides the company has secured against keen global competition, especially from the USA and Japan, an order for plant and equipment for production of 27 tonnes per day of semi-dull viscose staple fibre from South Korea, the value of the order being seven million US dollars. The approval of the Republic of Korea as well as the Reserve Bank of India and the Industrial Development Bank of India to this export order has since been received. The manufacture of the plant and equipment is now being undertaken. Moreover the company has successfully completed the order from South India Viscose Ltd for the supply of a complete 20 tonnes per day of viscose staple fibre plant along with 60 tonnes per day of sulphuric acid plant and seven tonnes per day of carbon-bi-sulphide plant. This apart, the company continued to undertake manufacture and supply of machinery and equipment for several scores of indigenous companies engaged in the manufacture of rayon man-made fibre and chemical products. The company has also submitted an application to the government for allowing diversification of activities for the manufacture of dissolving pulp and paper plant and machinery based on company's own know-how in pursuance of the press notification which will save valuable foreign exchange for the country as also open new avenues for exports of the company's products.

Hindustan Everest

Impressive improvements in production, sales and profits have been reported by Hindustan Everest Tools Limited during the year ended March 31, 1974. Despite acute shortages, escalation in costs of almost all inputs and severe power disruptions, the company had been able to enhance production by 16.8 per cent and sales by 29.3 per cent over 1972-73. Production during the year was appreciably higher at Rs 178.9 lakhs as compared to Rs 144.6 lakhs in 1972-73, while local sales improved substantially from Rs 42.0 lakhs to Rs 71.7 lakhs. Exports during the year amounted to Rs 120.1 lakhs, an increase of Rs 13.2 lakhs over 1972-73. The company has been recognised as an export house and was also awarded a certificate of merit by the government of India for being the best exporter of

hand tools in 1971-72. The company has been allowed to expand its capacity from 1080 tons to 2400 tons per annum. But in the letter of intent received, a commitment was required to be made by the company for exporting 60 per cent of its output, including the present production. The directors therefore, do not consider it desirable to make any such commitment particularly when the company has been exporting a major percentage of its output. The company, however, is still keeping its plans of expansion active and depending on the progress made during the current year, the expansion programme will be reviewed accordingly. Steps are being taken by the company in diversifying and broadening its product range. A separate research and development cell has been set up for this purpose.

The company has earned during the year a profit of Rs 24.8 lakhs as compared to Rs 16.8 lakhs in 1972-73. After providing Rs 5.0 lakhs for depreciation, Rs 2.8 lakhs for development rebate reserve there is a net profit of Rs 16.93 lakhs as against Rs 9.97 lakhs in the earlier year. The directors have proposed an equity dividend of eight per cent for 1973-74. While recommending the dividend. the board of directors have considered it advisable to follow a cautious approach in view of the ordinance restricting payment of dividend.

Seshasayee Paper

Seshasayee Paper and Boards Limited has reported all-rouud improvement in its performance during the year ended March 31, 1974. Production of paper and board was significantly higher at 32,515 tonnes as against 32,284 tonnes in 1972-73. The vigour of power cut was severer than in the previous year—the power cut of 75 percent being in force this year for a longer period. Considered against this background the higher production achieved during the year is indeed highly gratifying. Although sales during the year was mar-

ginally lower by 10 tonnes at 32,245 tonnes, the turnover was appreciably higher at Rs 9.81 crores as compared to Rs 8.32 crores in the preceding year. The profit before providing for depreciation and development rebate reserve amounted to Rs 223.74 lakhs, an increase of Rs 79.38 lakhs over 1972-73. As there are adequate 'distributable' profits it has been decided by the directors to recommend payment of a final equity dividend of six per cent, which with the interim, makes a total of 12 per cent for 1973-74. Effective steps are being taken for expanding the annual capacity from 35,000 tonnes to 50,000 tonnes and an industrial licence is expected to be received from the government shortly. Besides meeting the additional requirements of raw materials the Tamil Nadu government has assured to make available to the company adequate supply of water and power for running the expanded plant. The company proposes to finance the major cost of expansion by borrowings from financial institutions. The balance will be raised from internal sources.

Out of the gross profit, the directors have appropriated a sum of Rs 69.76 lakhs to depreciation reserve as against Rs 66.14 lakhs in 1972-73 while the allocation to development reserve was enhanced by Rs 50 lakhs to Rs 81.00 lakhs. This leaves a profit of Rs 72.98 lakhs as compared to Rs 47.22 lakhs in the preceding year. After adding Rs 1.59 lakhs being the amount brought forward from the last year's account, the sum available for disposal comes to Rs 74.58 lakhs. The interim dividend absorbed Rs 21.00 lakhs, while an amount of Rs 53.00 lakhs was transferred to the general reserve. The balance of Rs 57,832 has been carried forward to the next year's accounts.

NELCO

The operations of the National Radio & Electronics Co. Ltd. during 1973-74 resulted in a sales turnover of Rs 626.73 lakhs as compared to a sales turnover of Rs 434.59 lakhs in the previous year, representing a growth of 44 per cent. Despite the stagnation in the radio industry in 1973, and the difficult supply situation arising from the shortages of various raw materials, the company registered a growth in the sales turnover of 49 per cent in the entertainment electronic products, 64 per cent in the professional and industrial electronic products and 23.8 per cent in the domestic and institutional appliances over the previous year. The company earned a profit of Rs 17.54 lakhs during 1972-73 which included a profit of Rs 18.85 lakhs on the sale of some of its assets. As against the break-even position reached out of the operations during 1972-73, the company reported an operational profit, during 1973-74, of Rs 12.37 lakhs, excluding a profit of Rs 0.54 lakh on the sale of assets, thus registering a significant improvement. Based on the company's operations in the five months of the current year, the company envisages prospects of continued growth in the sale of its products.

Dunlop India

Another major step towards setting up two automotive tyre factories, each with an annual capacity of five lakhs tyres and tubes, are taken on August 27 when the West Bengal Industrial Development Corporation (WBIDC) and the Andhra Pradesh Industrial Development Corporation (APIDC) signed detailed technical agreements in London with Dunlop Limited, England and Dunlop India Limited. The WBIDC plant will be located at Durgapur and the APIDC at Guntnr, Andhra Pradesh. Under the agreements signed in London, Dunlop England will provide know-how and technical documentation for setting up the factories. Continuing technical information will be supplied by both Dunlop England and Dunlop India for five years from the commencement of production. It is expected that the factories will be ready for production by 1977-78. There will be substantial saving in foreign exchange, as a part of technical aid fees will be payable in rupees to Dunlop India. Dunlop's vast experience of tyre manufacture in India will be of additional help to the new tyre plants. The detailed agreements signed in London are subsequent to the preliminary agreements signed in November last. Approval of the government of India for the foreign collaboration was received in March this year.

Marshall Sons & Co

Despite unprcedented power cut of 75 per cent from the middle of February to the middle of July, 1973 and sharp escalation in costs of inputs, the working results of Marshall Sons & Company (Manufacturing) Ltd for the year ended December 31, 1973 were far better than those of 1972. While the turnover at Rs 130.70 lakhs exceeded the previous year's performance by about 30 per cent, the net operating profit after providing for depreciation nearly doubled to Rs 16.84 lakhs as compared to Rs 8.51 lakhs in 1972. Out of the net profit, the directors have allocated a sum of Rs 1.75 lakhs to development rebate reserve as compared to Rs 0.92 lakh in 1972 while a sum of Rs 9.81 lakhs was earmarked for meeting tax liabilities as against no provision in the earlier year. After adjustments, there is a disposable amount of Rs 4.77 lakhs. Out of this, the directors have allocated an amount of Rs 1.93 lakhs for payment of arrears of dividend on preference shares for the period December 22, 1967 to December 31, 1970. After adjusting Rs 1.94 lakhs towards the loss brought forward from the previous year, the entire balance of Rs 89,759.00 has been transferred to the general reserve. The directors have skipped the dividend on equity shares for 1973.

The company is making satisfactory progress in the implementation of its expansion programme. Construction work has already been started and most of the additional plant and machinery are expected to be installed by November, 1974. As against the ministry of Transport order for Rs 342 lakhs, deliveries totalling to Rs 20.59 lakhs were made during 1973 and deliveries up to June 30, 1974 amounted to Rs 50.40 lakhs. The despatches during the first half of the current year are significantly higher at Rs 59.48 lakhs as compared to Rs 51.60 lakhs during the same period of last year. However, in view of rising costs of production and shortages of raw materials. the directors have not been able to make a realistic forecast of the financial results for the current year.

News and Notes

Farel Anand Machinery Manufacturers Private Limited, proposes to manufacture rubber machinery in the country in collaboration with Farels of the UK. The British firm, besides providing technical know-how, has agreed to take up 26 per cent of the capital of the new company which is about one crore of rupees The turnover is expected to rise from Rs 50 lakhs to Rs 2.5 crores within three years. The company will be converted into a public limited company at a later date.

The *Tata Engineering and Locomotive Co Ltd* has secured, through Tata Exports Ltd, a contract from a government undertaking in Uganda for the sale of 1,060 Tata trucks and Tata buses of the aggregate value of about Rs 2 crores. Payment will be made in £ Sterling. This is the largest single export order ever secured for the supply of commercial vehicles manufactured in India. TELCO has already supplied 197 Tata vehicles to Uganda. The entire order covers 1,000 Tata trucks and 60 Tata buses and was secured against stiff competition from international manufacturers. TELCO's export earnings during 1973-74 amounted to Rs 7.29 crores.

New Issues

Gwalior Tools, which is setting up a plant at Gwalior for the manufacture of hack-saw blades, will be approaching the capital market shortly with a public issue of Rs 13 lakhs (Rs 10 lakhs in equity and Rs 3.00 lakhs in preference shares). The company is registered with DGTD for manufacturing four million pieces per annum of hack-saw blades. Since the demand has been rising, the company does not envisage any difficulty in marketing its output. Production is expected to commence by January, 1975. The capital outlay on the project is estimated at Rs 38.84 lakhs, which will be met by share capital of Rs 19.60 lakhs term loans from financial institutions of Rs 17.33 lakhs and loans from directors of Rs 1.91 lakhs.

Company Meetings

Sheshasayee Paper & Boards Ltd: Registered Office, Pallipalayam, Cauvery RS, PO. Salem district. September 26; 10.00 AM.

Bharat Steel Tubes Ltd: Chelmsford Club, Raisina Road, New Delhi; September 30; 4 PM.

Hindustan Everest Tools Ltd: Registered Office, 61, Sunder Nagar, New Delhi-110003; September 30; 3.00 PM.

Dividends

Revised Dividends (per cent)

Name of the company	Year ended	Equity dividend declared	
		Before ordinance	After ordinance
Peermade Tea Co,	Dec. 31, 1973	7.5	nil
Amalgamated Electricity	Mar. 31, 1974	12.0	11.0
Madras Industrial Linings	Mar. 31, 1974	10.0	7.5
SRP Tools	Mar. 31, 1974	10.0	3.75
SLM Maneklal Industries	Mar. 31, 1974	12.0	7.0

Dividend Announcements

(Per cent)

Name of the compauy	Year ended	Equity dividend declared	
		Current year	Previous year
Higher Dividend			
Sri Venkatesa Mills	Dec. 31, 1973	20.0	9.0
Phillips Carbon Black	Nov. 30, 1973	16.0	14.0
Victoria Mills	Dec. 31, 1973	21.0	18.0
Commercial Ahmedabad	Dec. 31, 1973	16.0	12.0
Sree Saraswathi Mills	Mar. 31, 1974	12.0	10.0
Same Dividend			
International Computers	Sept. 30, 1973	11.0	11.0
Phaltan Sugar Works	Sept. 30, 1973	14.0	14.0
India United Mills	Dec. 31, 1973	nil	nil
Raza Textiles	Dec. 31, 1973	nil	nil
Multimetals	Mar. 31, 1974	20.0	20.0
Utkal Machinery	Sept. 30, 1973	nil	nil
Mysore Acetate and Chemicals	Dec. 31, 1973	nil	nil
Madras Machine Tool Manufacturers	Mar. 31, 1974	nil	nil
Reduced Dividend			
Surat Electricity	Mar. 31, 1974	5.0	12.5
Dawn Mills	Mar. 31, 1974	12.0	14.0

RECORDS & STATISTICS

Foreign collaborations

During the quarter April-June 1974, 113 collaborations with foreign companies were approved by the government. Out of these 96 involved technical collaboration only while 17 involved both technical and financial collaboration. The collaborating companies were from Australia, Canada, Denmark, Finland, France, Holland, Ireland, Italy, Japan, Luxembourg, Spain, Sweden, Switzerland, the UK, the USA and West Germany. The names of the collaborating companies and the items of manufacture are given below:—

Sl No	Name of the Indian Company	Name of the Foreign Collaborator	Item of manufacture
	India-Australia		
1.	M/s. Kahsmir Electronics (P) Ltd., C/o The Kashmir Metal Mart, Hari Singh High Street, Srinagar (Kashmir).	M/s. McMURDO (Australia) Pvt. Ltd., 7-21, Carinish, Clayton, Victoria 3160, Australia.	Connectors.
	India-Canada		
2.	M/s. Indian Aluminium Co. Ltd., 1, Middleton Street, Calcutta-16.	M/s. Alcon Research & Development Ltd., Montreal, Canada.	Prebaked Carbon Blocks.
	India-Denmark		
3	M/s Larsen & Toubro Ltd, L&T House, Dougall Road, Ballard Estate, Bombay	M/s Niro Atomizer Ltd, 305, Gladsaxe Vej, DK 2860, Soeborg, Denmark	Suspended Particles Drying Plants
	India-Finland		
4	M/s Giovanola-Binny Ltd, Penstock Factory Road, Palluruthy, Cochin-6, Kerala	M/s Ahlstrom Oy, Helsinki, Finland	Pulp & Paper making machinery
	India-France		
5	Mr B.S. Shaney, 71, Chitrakoot, Altamount Road, Bombay-26.	M/s Carter of France	Flasher Units (Auto Electricals)
6. (F)	Mr B.S. Shaney, C/o Shaney Sev-Marchal (P) Ltd., 71, Chibako Altamount Road, Bombay-26.	M/s Sev-Marchal S.A. 26, Rue Guyanemer, 92, Issy-des-Moulinaux (France).	Wiper Motors and Distributors (Auto-Electricals).
7.	M/s Tata-Merlin & Gern Ltd., 84, Veer Nariman Road, Bombay-400020	M/s ETS Merlin-Gerin S.A., Cedex 83,38, Grenoble Gare, France.	Air Blast Circuit Breakers.
8.	M/s Jagran Micro Motors, 2-Sarvodayanagar, Kanpur (UP).	M/s Thomson Brandt, France.	Micromotors.
9.	M/s Vijay Tanks & Vessels Pvt. Ltd, Homji Street, Bombay-400001.	M/s Air Industries, 19-21, Avenue, Dubonnet, 92, Courbevale, France.	Paper and Pulp Machinery.
10. (F)	M/s Voltas Ltd, 19, Graham Road, Ballard Estate, P. B. No. 1198, Bombay-1. (Composite Case).	M/s Societe Das Usines Chemiquesss, RHONEPOUIENC, Paris (France).	Phesalone Technical and its Formulations.
11.	M/s Bharat Coking Coal Ltd, P.O. Sijua, Dhanbad.	M/s Sorfemines, France	Consultancy Services for Amlabad Mine.
	India-Holland		
12. (F)	M/s Associated Textile Engineers, Prope: A.T.S. (P) Ltd., 43, Forbes Street, Fort, Bombay-1.	M/s Stork Boxmeer, N.V. Boxmeer, Holland.	Automatic Rotary Screen Printing Machines. (Textile Machinery).
	India-Ireland		
13.	M/s International Chemical Industries India, E/19, Area Colony, Bhopal, MP	M/s Reducine Co. Ltd, Ireland.	Reducine Absorbent & Reducine Salve.
	India-Italy		
14.	M/s Satellite Engineering Ltd, P.O. Maize Products, Kathwada, Ahmedabad-2.	M/s Fabbrica Segment Caber, s.r. 1, Via Caprera No. 133, Torino, Italy.	Piston Rings.

"F"—Indicates cases involving financial participation also.

Sl No	Name of the Indian Company	Name of the Foreign Collaborator	Item of manufacture
15. (F)	M/s Greaves Cotton and Co. Ltd., 1, Forbes Street,, P.B. No. 91, Bombay	M/s Lombardini Fabrica Italiana Motoria, S.P.A , Raggio Emilnia, Italy.	Diesel Engines.
16.	M/s Texmaco Limited, P.O. Belgharia, Calcutta, 56.	M/s Adriano Gardella S.P.a., Genoa, Italy.	High Speed Cop Winding Machines.
17.	M/s Indian Oxygen Limited, P. 34, Taratala Road, Calcutta-700053.	M/s Saccab S.P.A., Trezzano Sul Naviglio Via V Carpaccio, 33 CAP 20090, Milano, Italy.	Oxygen Tents.
	India-Japan		
18.	M/s Baroda Rayon Corporation Ltd., 130/132, Apollo Street, Fort, Bombay-1.	M/s Unitika Limited, 4-68, Kitakyutaro-Machi Higashi-Ku, Osaka-Japan.	Nylon Tyre Cord.
19. (F)	M/s M. Parthasarthy & C.P. Rangachar, 30, Sir Krishna Rao Road, Basavangudi, Bangalore-4.	Yuken Kogyo Co. Ltd, Daini Massukei Building, 4-8, Shiba-Daimon 1-Chome, Minato-Ka, Tokyo, Japan.	Hydraulic Equipment.
20.	M/s James Warren & Co. (I) Ltd, 31, Chowringhee Road, Calcutta-16.	(i) M/s Mitsubishi Corp. Japan and (ii) M/s Ibigawa Electric Industry Co. Ltd, Tokyo, Japan.	Acetylene Black.
21.	M/s Orissa Tile Ltd., P.O. Barang, Distt. Cuttack, (Orissa).	M/s Donto Co. Ltd., 9-Chome, Awagan-ka-Dori Ikshkhum, Osaka, Japan.	Glazed Wall Tiles.
22.	M/s Dommidala Brothers (P) Ltd, P.B. No 100, Guntur (Andhra Pradesh).	M/s Ishiguro Pharmaceutical Co., Japan.	Nicotine Sulphate.
23.	M/s K. Chinai Industries, Sir P.M. Road, Bombay-400001.	M/s Daikin Manufacturing Co. Ltd, 250-1-Chome, Kiaswchomiya Nyagawa, Osaka-Japan.	Clutch Plates and Clutch Assemblies.
24.	Major V.S.R. Swamy, C/o M/s Flash Enterprises, 72-B, Miller Road, Bangalore-560052.	M/s Fuji Variable Condensers Co. Ltd, 2-6-3 Shome, Nishifuna, Funabashi City, Chibapref, Japan.	PVC Gang Condensers.
25.	M/s Diamond Die Manufacturing Corporation, 195, Sankey Road, Upper Palace Orchard, Bangalore-560006.	M/s Furukawa Electric Company Ltd, 6-1, Marunouchi 2 Chome Chiyoda-Kum, Tokyo, Japan.	Wire Drawing Diamond Dies.
26.	M/s Printpak Machinery Ltd., 13/14 Asaf Ali Road, New Delhi.	M/s Nishimura Manufacturing, Kyoto, Japan.	Slitter Rewinders in the size range of 1.6 meter to 3.1 meter.
27.	M/s Continental Electronics Industries Ltd., 21-A, Himalaya House, Kasturba Gandhi Marg, New Delhi-1.	M/s Daiichi Trading Co. Ltd., No-1-12-24, Higashinakano, Nakanoku, Tokyo-164, Japan.	Relays and Connectors.
28.	M/s British Physical Laboratories India (P) Ltd , Mahatma Gandhi Road, Bangalore.	M/s Nihon Kohden Kogyo Co., Ltd., 31-4, Nishiochiai, Tokyo, Japan.	Internal Pace Makers.
29.	The Kerala Ceramics Ltd., Kundra P.O., Kerala State.	M/s Sumitomo Shoji Kaisha Ltd., 2-2 Hitoteuhashi 1-Chome, Chiyoda, Tokyo, Japan.	Chinaware Pottery.
30.	M/s Sudarshan Chemical Industries Pvt. Ltd., Sangan Bridge, 162, Wellesley Road, Poona-410001. (Composite Case).	M/s Sanyo Colona-Works Ltd., Byoka Building, 6, Muromachi, Ninonbeshi, Chom-Ku, Tokyo, Japan.	Pearl Essences.
31.	M/s MRA Industries, 2, Seagull, 13, Carmichael Road, Bombay-400026, (EPZ Case).	M/s Nephews International Inc., P.O. /Box 216, Yokohama, Japan.	Carbon resistors, potentio-meters, and electronic desk calculators.
	India-Luxembourg		
32.	M/s Andhra Steel Corpn. Ltd., P-38, India Exchange Palace, Calcutta-1.	M/s Tor-Isteg Steel Corporation, 19, Rue Aldringer, Luxembourg.	Torsteel.
	India-Spain		
33.	M/s Jaya Hind Industries (P) Ltd., Bombay-Poona Road, Akurdi, Poona-35.	M/s Fabrica Espanola Magnetos SA, Hnos. Garoia Nobeljas-19 Madrid-17.	Electronic Magnets.

F—Indicates cases involving financial participation also.

Sl. No.	Name of the Indian Company	Name of the Foreign Collaborator	Item of Manufacture
	India-Sweden		
34.	M/s Tamil Nadu Industrial Dev., Corporation Limited, 150-A, Mount Road, Madras-2.	M/s C.E. Johansson, P.O. Box No. 365, S. 63105 Eskilstuna-1, Sweden.	Precision Measuring Tools.
35.	M/s Tamil Nadu Industrial Dev., Corporation Ltd., 150-A, Annasalia, Post Bag No. 5205, Madras-600002.	M/s John Nordstrom Verktygsmakiner, Stockholm, Sweden.	Vernier Callipers.
	India-Switzerland		
36. (F)	M/s Lakshmi Loom Works Ltd., c/o Lakshmi Machine Works Ltd., S.R.K Vidyalaya Post, Coimbatore-20.	M/s Ruti Machinery Works Ltd., Ruti-(Zurich), Switezerland.	'C' Type Automatic Looms.
37. (F)	Mr G.K. Devarajulu, "Shell House", Avanashi Road, Coimbatore-19.	M/s Bracker S.A. 8330, P-faffikon-Zurich Switzerland.	"Record" Ring Travellers.
38.	M/s Mysore Structurals Limited, 12, Palace Road, Bangalore.	M/s Proceq, S-A2, Riesbachstrasse 57, 57,8034, Zurich, Switzerland.	Prestressed Concrete Machinery and Equipments.
39.	Mr H.G. Bangera, C/o M/s Jaya Prakash Bros., 629-A, Girgaum Road, Bombay-20.	M/s Roamer Watch Co., S.A., CH-4800 Solechurn, Switzerland.	Wrist Watches.
40.	M/s Kunal Engineering Co Ltd., 20 Nungambakkam High Road, Madras-600034.	M/s Spindel Motoren High Und Maschinenfabrik A.G., Ch-86 10 Uster, Switzerland.	High Speed Roller Bearing Inserts.
41.	M/s Lakshmi Machine Works Ltd., Perianaickenpalayam, Coimbatore.	M/s Rieter Machine Works Ltd., Winterthur, Switzerland..	High Production Card 'Cristallina' Model C 1/2.
42.	M/s DHJ Interlinings (India) Pvt. Ltd, B-171, East of Kailash, New Delhi-24.	M/s DHJ Industries, AG Zuly, Switzerland.	Interlining and fusible lining of garment industry.
43.	M/s Peass Industrial Engineers, Pvt. Ltd, Maneklal Road, Navsari, (Gujarat).	M/s Jakob Jaoggle & CIE, Winterthur, Switzerland.	Yarn Merce Rising Machines.
44.	M/s Modi Spg. and Wvg. Mills Co. Ltd., Modinagar (UP).	M/s Arova Rosschach Abi Switzerland	Synthetic Thread
45.	M/s Gansons Private Limited, 207, Kakad Chambers, Dr. Annie Besant Road, Worli, Bombay.	M/s Aeromatic A.G., Mutteriz/Scheweig. Farnsburgerstrasse 6 Bankverein, Basel, Switzerland.	Fluidised Bed Granulators/Dryer.
46. (F)	M/s Senapathy Whiteley (P) Ltd., 14-Netaji Road, Bangalore-460025.	M/s Swiss Insulating Works Ltd., Switzerland.	Reconstructed and Integrated Mica Products.
	India-UK		
47.	The Commissioner, Town and Country Planning Department, Government of West Bengal, Calcutta.	M/s Freeman Fox & Partner (FFP) 25, Victoria Street, London-SW-1 (UK).	Consultancy Services for 2nd Hooghly Crossing Project.
48.	M/s Pennwalt India Ltd., Signal Hill Avenue, Tank Road, Bombay-400033	M/s Pennwalt Ltd., Doman Road, Gamberley, Surrey, UK	Solid Bowl Centrifuges.
49. (F)	M/s Usha Die Castings Pvt. Ltd., No. 32, Greater Kailash, New Delhi.	M/s Josiah Parkes & Sons Ltd., Stafford, UK.	Mortise Locks and Knob Sets.
50.	M/s Peddington Chemical Industries (India), Sprott Road, Ballard Estate, Bombay-1.	M/s Parexite (London) Ltd., 602/4, Victoria House, Southampton Row, London, W.C. 1.	Wire Lubricants and Coating Compounds
51.	M/s Punjab State Industrial Dev., Corporation Ltd., Sector 17-A., Chandigarh.	M/s P.E. Consulting Group Ltd., 14-20, Headfort Place, London.	Precision Measuring Instruments.
52.	M/s Inductron (India). 8, Candy House, Mandlik Road, Colaba, Bombay-400039.	M/s Inductron Ltd., Wade Road, Kingsland-Basingstoke, Hampshire RG 24 OPN, England.	High Frequency Welding Equipments.
53.	M/s Belliss & Morcom (India) Ltd., 6, Little Russell Street, Calcutta-16.	M/s Belliss & Morcom, UK.	Steam Turbines & Spares.
54.	M/s Fenner, Cockill Ltd., Post Box No. 117, Madurai-1, Tamilnadu.	M/s J.K. Fenner and Co., Ltd., Hull, England.	Fenaplast Supergrade Conveyor Belting.

F—Indicates cases involving financial participation also.

Sl. No.	Name of the Indian Company	Name of the Foreign Collaborator	Item of Manufacture
55.	M/s Vibronics Pvt. Limited, 4, Kurla Industrial Estate, Ghatkopar, Bombay-400086.	M/s Kerry Ultrasonics Ltd., UK.	Ultrasonic Equipment.
56.	Mr K.C. Sethi, C/o Chemicals (I). 20-A Camac Street, Calcutta.	M/s Coates Brothers and Company Limited, 1-7 Gaston Street, London, WC 1X, ODP, England.	Polyamide Resins.
57. (F)	M/s Heinemann Educational Books (India), ABO, First Floor Safdarjang Development Area, New Delhi-16.	M/s Heinemann Educational Books Ltd., London and (ii) M/s Arnold (Publishers) Ltd., London.	Printing, publication and distribution of books in India.
58.	M/s Bestobell (India) Ltd., 21, Camac Street, Calcutta-16.	M/s Kent Instruments Ltd., Luton, Bedfordshire.	Pneumatic Servo Operated Recorders etc.
59.	M/s Gujarat State Fertiliser Co., Ltd., P.O. Fertiliser Nagar, Distt. Baroda, (Gujarat).	(i) M/s Badger Inc., USA and M/s Cosden Oil & Chem Co. USA and Mos. Badger Ltd., UK.	Styrend-Polystyrene.
60.	M/s Atherton Glass Works (P) Ltd., 47, Thiruneermalai Road, Madras-44.	M/s Ponelectro Ltd., 35, Progress Road, England.	Import of Furnace Designs and Drawings
61.	M/s National Machinery Manufacturers Ltd., 81-83, Veer Nariman Road, Bombay-400020.	M/s Platt International Ltd., Rossendale, England.	Combers.
62.	Mr Prakash D. Dahanukar, Industrial Assurance Building, Churchgate, Bombay-20.	M/s McKERNAN Scientific Services Bell House, Bell Yard, London WC 2A 2 LX.	Ossein and Di-Calcium Phosphate.
		India-USA	
63.	M/s Bridge & Roof Co. (I) Ltd., 427/1.G.T. Road, Howrah.	M/s Pittsburg-es Moines Steel Co., Neville Island, Pittsburg, Pennsylvania 15225 USA.	Floating Roof Tanks.
64.	M/s Universal Tyres Ltd., 21, Malavia Road, Allahabad-2 (UP)	M/s General Tire International Co., Akron, Ohio, USA.	Automobile Tyres and Tubes.
65.	M/s Anup Engineering Ltd., Anil Road, Post Box No. 1164, Ahmedabad-2.	M/s Process Engineering INC., USA.	Expansion Joints and Expansion Bellows.
66. (F)	Mr Shyam B. Ghia, Industrial Assurance Building, Churchgate, Bombay-400020.	M/s Bristol Yachts Co. Inc., Rhode Island, USA.	Luxury Diesel Trawler Yachts.
67.	M/s J.C. Glass Industries Pvt. Ltd., Pimpri, Poona-18.	M/s Maul Brothers Inc., Millville, New Jersey, USA.	Glass Moulds.
68. (F)	M/s International Tractor Co. of India Ltd., Gateway Bldg., Apollo Street, Bombay-1.	M/s International Harvester Co., 401 North Michigam Avenue, Chicago, Illinois—60611, USA.	454 and 574 Tractors.
69.	M/s Poddar Estates Ltd., 31, Dalhousie Square(s), Calcutta-1.	M/s Philip Morris INC, 100 Park Avenue, New York, USA.	Safety Razor Blades.
70.	M/s Khatau Junker Limited, 6, Ballard Road, Bombay-1.	M/s General Electric Co. 159, Madison Avenue, New York, USA.	Power Factor Connection Capacitors.
71.	M/s Victor Gaskets India Limited, 20, MIDC Industrial Estate, Satpur, Nasik.	M/s Dana Corpn., P.O. Box No. 906 Toledo, Ohio 43601, USA.	Piston Rings.
72.	M/s Platwell Processes and Chemicals Ltd., 507, Kakad Chamber, Dr. A.B. Road, Worli, Bombay-400018.	M/s Service Filtration Corporation, Harlem Avenue, Chicago, USA.	Sealless Leak-proof Magnetic Pumps.
73.	M/s The Indian Tool Manufacturers Limited, 101, Sion Road, Sion, Bombay-22.	M/s Li Tungsten Corporation, New York, USA.	Tungsten Carbide Powers.
74.	Mr Abhay K. Jain, 3061, 8. Robertson Blvd., Apt. 15, Los Angeles, California 90034, USA.	M/s Flair Electronics Inc., California, USA.	Reed Switches.

F—Indicates cases involving financial participation also.

Sl. No.	Name of the Indian Company	Name of the Foreign Collaborator	Item of Manufacture
75.	M/s Manmohan Fulchand Tamboli, Steelcast Bhavnagar Pvt. Ltd., Ruvagari Road, Bhavanagar Gujarat.	M/s Arwood Corpn., 2, Rockleigh Industrial Park, Rockleigh, N.J. 07647, USA.	Investment Castings.
76.	M/s Central Cereal Chemicals Pvt. Ltd., 16-Dharamayuga Colony, Kankaria, Ahmedabad.	Dr. William A. Scholle, Chemical Engineer, H3, Francis Court, St. Louis, Missouri, USA.	Furfural.
77.	Mr Chander Mohan Singh, C/o M/s Pioneer Sport's Works Private Limited, Nakodar Road, Jullundur City, (Punjab).	M/s Spalding Division of Questor Corporation, 1801 Spielbusch Ave., Toledo, Ohio, 43694, USA.	Tennis, Squash and Badminton Rackets.
78.	M/s Digital Electronics Pvt. Limited, 202, Owners Industrial Estate, Pitamber Lane, Mahim, Bombay-16.	M/s Houston Instrument Division of Bausch and Lomb Inc., 635 St. Paul Street, Rochester, New York, USA.	Strip Chart Recorders and X-Y Recorders.
79.	M/s Cosmosteels Pvt. Ltd., Netaji Subhash Road, Calcutta.	M/s American Safety Razor Blade Co. Inc., USA.	Safety Razor Blades.
80.	M/s Black Gold (P) Ltd., 177, Nagavar Palyam, Bangalore-560016.	M/s Westvaco Corpn., 299 Park Avenue, New York.	Activated Carbons.
81.	Mr Gautam Shah, C/o Vakil-Mehta-Parikh-Sheth, Khamasa Gate, Ahmedabad-1.	M/s Magnetics Inc., Division of Spang Industries, Butler, PA. USA.	Power Control Unit, Regulated Power Supply and Control Amplifiers.
82.	M/s Premier Paper Mills Ltd., Vaswani Mansion, 120, Dinshaw Vachha Road, Bombay-400020.	M/s Knowlton Bros., New York, USA.	Filter Paper.
83.	Mr Jaswant Worah. C/o M/s Nippon Worah Springs Ltd., Post Box No. 45. Jharia.	M/s Torin Corpn., Kennedy Drive Tonnington, Connecticut, USA.	Metallic Industrial Springs.
84.	M/s Electronics Limited, 26, N.I.T. Faridabad, Haryana.	M/s Bendix International Corpn., 1638, A. Broadway, New York, USA.	Air Guages Mechanical Comparators etc.
85. (F)	Mr R.K. Gupta, 46-A Friends Colony, New Delhi.	M/s Harbour Industries Inc., P.O. 188, Shelbourne, USA.	High Temperature Wires & Cables.
86.	M/s O.E.N. Limited, 19/88-B, Kaloor Road, Cochin 682018, Kerala.	M/s Techno Components Corporation, Crystal Lake, Illinois, USA.	Miniature Wire Wound Frimming Potentiometer.
87.	Mr Suresh S. Mahajan, 35, Navrang, Peddar Road, Bombay-26. (EPZ Case).	M/s Halex Inc., California, USA.	Thin Film Hybrid Microcircuits.
88.	M/s Usha Die Castings Pvt Ltd., S-39, Greater Kailash-1, New Delhi.	M/s FERRODYNE Corpn., P.O. Box 3185, 21200 Street Clair Avenue, Cleveland, Ohio, 444117, USA.	Ferrous Die Castings.
89. (F)	Mr Harish C. Sarin, No. 2 Hawthorne Place, Apartment 16R, Charles River Part, Boston, Massachusetts 02114, USA.	M/s Durametallic Corpn., 2104 Factory Street, Kalamazoo, 4900, USA.	Mechanical Seals.
		India-West Germany	
90.	M/s Asian Paints (India) Pvt. Ltd., Nariman Point, Bombay-1 BR.	M/s Chemicals Werke Hules, A.G. 470 Marl, West Germany.	Vinyl Pyridine Latex.
91.	Mr Kaippully Krishnan Ramdas, 49, Grammer Road, Forest Gate, London-E-7 (UK).	M/s Otto Mandebach Solingen-Wald, Diltgenstaler Strassee-11, West Germany.	Saftey Razor Blades.
92.	M/s The Mysore Electro-Chemicals Works Limited, Yeshwantpur, Bangalore-560022 (Karnataka-State).	M/s Accumulatorenfabrik Sonnenscheinen, D-6470, Buedingen (Hessen), Tiergarten, West Germany.	Automotive Stationary Traction and Train Lighting Cells.
93.	M/s Mysore Electro-Chemical Works Ltd., Yeshwant Pur, Bangalore-560022.	M/s Accumulatorenfabrik Sonnenscheinen. GmbH, D-6470, Buedingen (Hessen) Tiergarten, West Germany.	Dryfit Batteries Photoflash Batteries.
94.	Mr Shantilal Mohanlal Shah, C/o M/s S. Mohanlal Services, Ashram Road, Ahmedabad-9.	M/s Drei-S Werk, Harbert J. Schmauser KG, 8540, Schwabach, Bayern, West Germany.	Textile Combing Needles.

F—Indicates cases involving financial participation also.

Sl. No.	Name of the Indian Company	Name of the Foreign Collaborator	Item of Manufacture
95.	M/s Kiran X-Ray Screens (P) Ltd., 1, Ratilal Thakkar Marg, Malabar Hill, Bombay-400006.	M/s W. Mainer K.G., 722, Schwenninghen Am Neckar, Dauchinger Strasse 9, West Germany.	X-Ray high intensifying screen.
96.	M/s Dhawan Motor Company, Latouche Road, Kanpur (UP).	M/s Alean Aluminiumwerke, GmbH, 8500 Nurnberg, Nopitachstrasse 67, West Germany.	Pistons and Piston Pins.
97.	M/s Types Company India, 80, Harris Road, Madras-2.	M/s Alfred Ransmayer ,Albert Rodrian D-1000, Berlin 42 (Tempelhof) West Germany.	Steel Types for Type-Writers etc.
98.	M/s Dhawan Motor Company, Latoche Road, Kanpur (UP).	M/s Teves-Thompson GmbH, 3013, Barsinghausen Hannover, West Germany.	Piston Rings.
99.	M/s Sarabhai Machinery, P.O. Ranoli, (Distt. Baroda).	M/s Krebskosmo, Zelitnger Plataz 16, 1 Berlin 28 (West Germany).	Mercury Cells.
100.**	M/s Needle Roller Bearing Co., Limited, B-16, Road, No. 2., Industrial Area (Waglewadi) Thana (Maharashtra).	M/s Robert Kling Wetzlar GmbH, West Germany and M/s Nadella of France.	Needle Roller Cages.
101. (F)	M/s Applied Electronics (P) Limited, A-5, Wagle Industrial Estate, Thana-400604, Maharashtra.	M/s HAMEG K. HARTMANN K.G. KELSTERBACHER STRASSE 15-17 Frankfurt Am Main, West Germany.	Solid State Oscilloscope.
102.	M/s Laxminarain Bishambhar Nath, 7/140-Swarup Nagar, B.N. Khanna Road, Kanpur-2.	M/s Scheill & Seilacher, West Germany	Textile Auxiliaries.
103.	M/s Power Build Pvt. Ltd., Anand Sojitra Road, Vallabh Vidyanagar 388120, (Gujarat).	Dr. Hans Boekels & Company, D-51 AACHEN, Postfach 847, AM Gut Wolf II, West Germany.	Electromagnetic, Electronic Belt Weighers etc.
104.	Mr S.P. Sinha, Edward House, Arrah (Bihar).	M/s Carl Schenck Maschinen Fabrik GmbH, 61, Dermstadt, West Germany.	Weigh Feeders and Weighing Devices for Railway Wagons.
105.	M/s Associated Bearing Co. Ltd., Mahatma Gandhi Memorial Bldg., Netaji Subhas Road, Bombay-2.	M/s S.K.F. Kugellagerfabriken GmbH, Schweinfurt, West Germany.	Textile Machinery Components.
106.	Mr Sivaramkrishanan, Jt. Promoter, Ronald Steel & Rubber Industries, 5, New Market, Bhopal (MP).	M/s Conrad Schaltz, BTR-GmbH, Hamburg, West Germany.	Steel Cord Rubber Conveyor Belting.
107.	M/s Ratilal Rambhai Patel, 914, Khadia Goluiad, Ahmedabad. (Composite Case).	M/s Chemische Fabrik Gruenau, GmbH (CEG), West Germany.	Guar Gum Based Products.
108.	M/s Hein Lehmann (India Ltd., 16, Hare Street, Calcutta-1.	M/s Gewerkshaft Eisenhutte Westfalia, 4628, Altlumen, West Germany.	Chain Conveyors.
109.	M/s Maheshwari Enterprises, B-114, Sarvodaya Enclave, New Delhi-17.	M/s Durener Metalltuch Schoeller, Hosch & Co. 516, Duren, Postfach 447, West Germany.	Sieve Bands.
110.	Mr H.P. Roy, C-6/59A Safdarjang Dev. Area, New Delhi-110016.	M/s Glyco-Metall-Werke, Daelen & Loos, GmbH, 62, Wiesbaden, Schierafein, West Germany.	Thin Walled Bearings.
111.	Mr C.S. Vedi, B-14, Maharani Bagh, New Delhi-110014.	(i) M/s Jean Walter-Scheid KG, West Germany (ii) M/s Durkoppewerke, GmbH, West Germany.	Flywheel Ring Gears & Bearings for Water Pumps.
112.	M/s Kerala State Industrial Development Corpn., Ltd., P.B. No. 105, Vellayambalam, Trivandrum-1.	M/s Conrad Scholtz Aktiengeselschaft, 2000 Hamburg 70, AM Standard 55/59, West Germany.	Conveyor Belting Steel Cord Rubber Conveyor Belting.
113.	M/s Kerala Acids & Chemicals Ltd., Makkapuzha P.O. Kerala State.	M/s Karl Fischer Apparate-U, ROHR-LEITUNGASBAU, Berlin 27 (Borsigwalde) West Germany.	Formic acid.

**Joint collaboration with West Germany and France.
F—Indicates cases involving financial participation also.

ABSTRACT

1.	Approvals involving financial participation also	17
2.	Technical Collaborations	96
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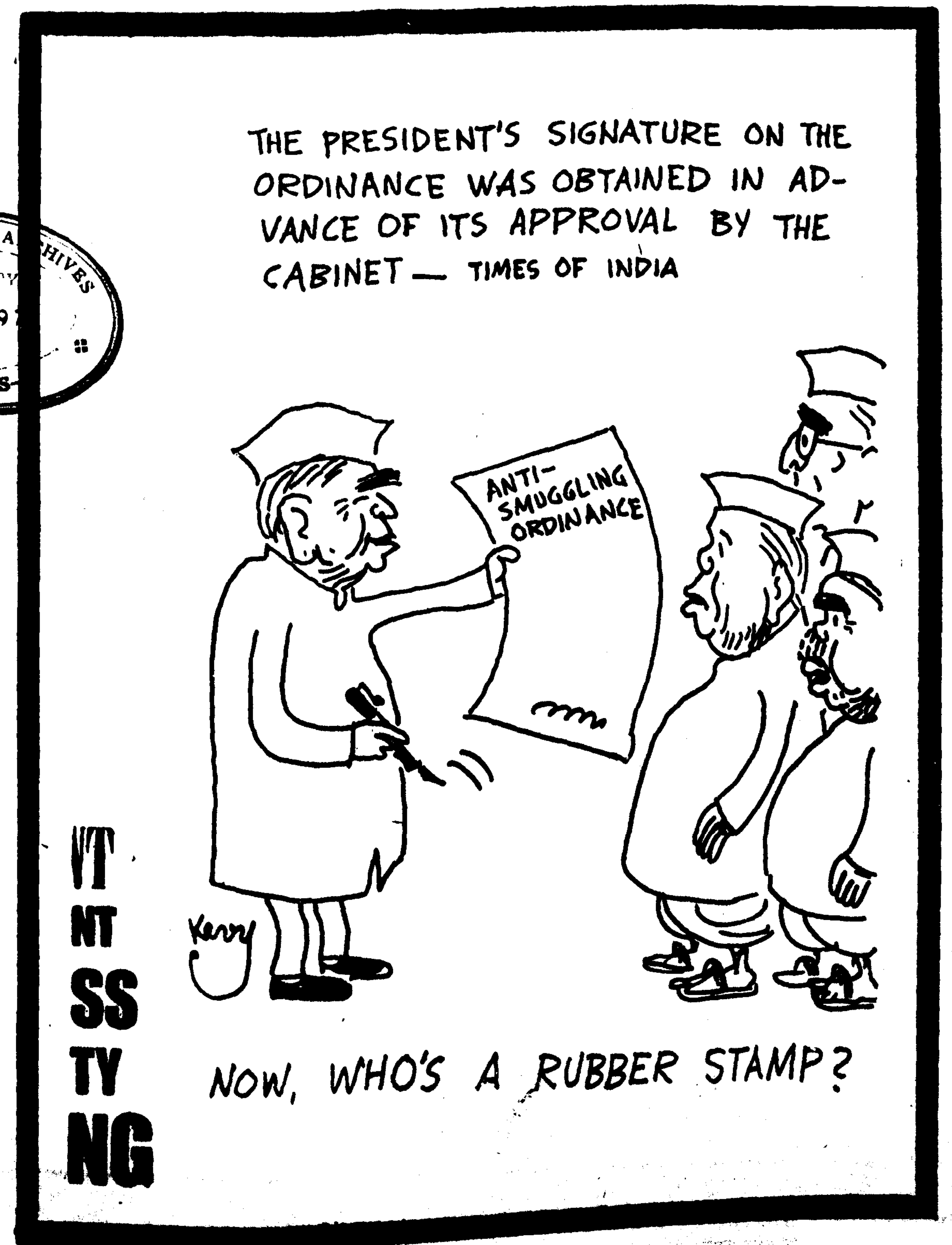

Beyond MISA

It is possible that the prime minister expects to receive the plaudits of the populace for extending by an ordinance the applicability of the Maintenance of Internal Security Act to the offence of smuggling and to smugglers. In any case she went on the air to celebrate the occasion as if it were a famous victory. It is of course right and proper that organized largescale smuggling, which has become a truly big business, should be put down with a heavy hand. The question is why the ordinary laws of the land or the normal administrative resources of the customs staff and the police force had not been or could not be effectively employed to control the racket whether before it had reached its monstrous proportions or since. The answer of course is one which does no credit to the central government.

The regular laws of the country and the normal machinery of the law courts failed, or, rather did not ever have the opportunity, to check smuggling because of organised corruption in the enforcement and investigative agencies and political patronage arising from graft among politicians and political parties. Against this background New Delhi's resort to the MISA in this case is less an act of firm government than a confession on its part that it has despaired of the administration functioning in a clean and responsible manner in the ordinary course. At the present time there is undoubtedly rejoicing in the land that the government is at last trying to catch up with the racket of organized smuggling and already there are demands that the MISA should also be applied to other socio-economic or anti-social offences such as tax evasion, hoarding and black marketing. The danger in the situation is that the public may easily let itself be converted to the ruinous notion that the authority of the ordinary laws of the land or the normal jurisdiction of the law courts should be progressively displaced by what are essentially the executive powers of the government exercised in a manner which must necessarily be *ad hoc* and arbitrary. Surely, any such trend in the thinking of the nation can be encouraged only at peril to our democracy and its institutions.

Quite clearly it is the responsibility primarily of the government to see that public faith is restored in the ordinary laws of the land as enforced by the law enforcement agencies and the law courts before a point of no return is reached. This would mean that the government should not fall into the habit of using the MISA or other special or extraordinary legislation as a means of opting out of its fundamental responsibility to root out corruption in the services or graft from politics and public life. Simultaneously it should become a regular practice of the government to exercise its normal executive powers or enforce the ordinary laws of the land regularly and relentlessly against those who may be indulging in tax evasion, hoarding or black marketing. Right now a great number of raids are being carried out by income tax authorities in various parts of the country. Raids are also being undertaken to detect violations of various commodity control laws or regulations. There can be no questioning the need for this police action in the present economic circumstances of the country; only, this essential surgery must be efficiently performed and completed as early as possible so that business activity is not unduly disrupted. While the authorities should no doubt continue to be vigilant as a matter of course, the greater part of large-scale police action as such should not be allowed to drag on for months on end.

It could be inferred perhaps that the government's decision to resort to extensive police action to deal with the problem of black money is a natural corollary to its having ruled out direct interference with the money stock with the public through such means as demonetization of higher value notes or writing down the value of the currency or bank deposits held by the public. There can be no doubt at all that the government has chosen the course of wisdom in resisting suggestions that inflation should be dealt with by a sudden sweeping cut in money stock, both currency and bank deposits. In its latest annual report the central board of directors of the Reserve Bank of India has strengthened and amplified the arguments against such a scheme

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in a convicing manner, and it is worth noting that even an out-and-out monetarist, such as Mr Milton Friedman, has not advocated a cut in money stock but has only been pleading for the holding down of the growth of money supply, partly through higher interest rates, but primarily by reducing government spending. The Reserve Bank report has also come out strongly in favour of curbing the growth of money supply in the present inflationary context and the government of India itself has recently initiated a strong programme for this purpose.

It is however high time that the prime minister and her advisers had diverted some of their attention to other useful anti-inflationary activities, apart from dramatizing the monetary assault on inflation or sensationalizing the holy crusade against 'smuggler kings.' As the Reserve Bank's annual report has pointed out in a refreshingly candid and courageous manner, the government's own many sins of omission and commission in such areas as foodgrain procurement and distribution, promotion or even maintenance of industrial growth, or deflating the levels of unproductive or wasteful public expenditure, have combined to aggravate inflationary pressures from both supply and demand sides. These precisely are the areas where the priorities for the government's thinking and effort in the immediate future should be firmly fixed.

Here it is indeed most encouraging that the Food and Agriculture ministry and the ministry of Irrigation and Power have come together to initiate the diversion of electricity from its less essential uses in the Delhi region to energizing irrigation facilities for the paddy crop in Haryana and Punjab. Incidental to this purpose has been the scheme for rationalizing the allocation of electricity for industrial users in the industrial complexes in Delhi and its environs. Earlier a scheme of power rationing had been introduced in the Calcutta region and although it is possible that some relief might be expected in a month or two in respect of the acute power shortage now plaguing some parts of the country, it is obvious enough that for the next two years or so the availability of power is bound to fall short of demand, actual or prospective. It is therefore only sensible that the Calcutta and Delhi schemes of power rationing should be adopted as a general model for ensuring a certain degree of reliability in the availability of power to industrial users once they have accepted the discipline of specific schedules of limited working hours or days.

Meanwhile, the stepping up of power generation and the speeding up of new or expansion schemes in both public and private sectors must claim the urgent attention of the government. Recently, addressing the Rotarians in Madras, Mr M.V. Arunachalam suggested that the army should be asked to take over and complete the Idikki project in Kerala. Idikki, of course, has been an extremely bad case of delay and foot-dragging by everybody concerned except the collaborating Canadian government. Mr Arunachalam's suggestion that the army should be brought in, however, could be relevant not only to Idikki but to other major power projects as well, where procrastination has been robbing the country of precious time. In this context it is of considerable interest that the Irrigation and Power ministry is currently operating a monitoring system which, it is claimed, is keeping track of progress in all the major power projects in the country on month-to-month basis.

While the public sector must necessarily play the leading role in the further expansion of power generation, the potentialities of the private sector also need to be fully utilized for the benefit of the country. Emphasizing this point Mr Naval H. Tata, chairman of the Tata group of hydel power companies, has appealed to the government to lay the ghost of nationalization of electricity companies once for all and proceed at once to execute a positive policy of encouraging and enabling all these companies to expand their generating capacity.

Adressing himself to a related aspect of this problem, Mr D.P. Mandelia has urged that industries planning to put up captive power facilities should be given all the assistance that may be needed for implementing their proposals. In this context he has referred to the sad case of HINDALCO, which has been made to suffer avoidable delays in the expansion of the capacity of its thermal power plant. Mr Mandelia has also pointed out eloquently the loss suffered by the nation through poor maintenance or inefficient operation of power-generating facilities run by state electricity boards. It is to be hoped that, however commendable the government's zeal may be for breaking up the empires of smugglers or the principalities of hoarders or profiteers, it will not divert New Delhi's attention away from the basic anti-inflationary task of building up production. Otherwise, the nation's economy may find itself at breaking point.

Eastern Economist 30 Years Ago

SEPT. 29, 1944

President Roosevelt has declared himself to be a relentless opponent of international cartels and has proposed joint action by the United Nations to free world trade from the domination of monopolist restrictionism. Recently, a great deal has been heard about the anti-cartel campaign of the Administration at Washington and it will be recalled that many feathers were ruffled when the Department of Justice levelled grave charges against certain British cartel interests. Anti-trust policy is of course nothing new in American domestic politics and its extension into the international sphere may be both natural and right. But certain significant aspects of the current American hostility against international cartels are too pronounced to be missed. For one thing, the United States has become fully conscious of her unique position in international trade. Her competitive power in advanced categories of manufacture, for which only an expanding market may be expected in a fast industrializing world, is so great as to be almost unique. Her economic destiny clearly lies in trading capital goods and complex consumer goods for the raw materials and to a less extent the simple manufactures of other countries. This, of course, implies that her vital interests are tied up with a a multilateral expansion of world trade, in which American capital equipment will create increasing purchasing power in other countries, by which will be sustained and developed the high level of economic activity and prosperity in the United States. In fine, the productivity of American industry has reached a stage, where even the vast home market of the United States no longer offers an adequate field for its full employment, and should therefore seek to serve a wide market as a condition of its revival.

Banking in West Bengal

The government of West Bengal has drawn the attention of the government of India to the low level of bank advances in West Bengal and to the meagre banking facilities in that state. Mr Sanker Ghose, the Finance minister, revealed in Calcutta on September 9 that there was, on an average, one bank for every 50,000 people in West Bengal compared to one for every 30,000 in Andhra Pradesh, one for every 27,000 in Maharashtra and one for every 20,000 in Gujarat. He pointed out that in the three years since the nationalisation of commercial banks in July 1969, the mobilisation of deposits in West Bengal was Rs 290 crores while the advances made by them were Rs 87 crores. But in the western region, the deposits in banks totalled Rs 782 crores and the advances amounted to Rs 524 crores while in the southern region the deposits and advances were Rs 393 crores and Rs 361 crores respectively. Mr Chavan, the union Finance minister, had recently instructed the departments concerned to remove the regional disparities in bank investments and Mr Sankar Ghose suggested that this directive from the centre should be quickly implemented.

It is, of course, true that banking facilities in West Bengal are not only inadequate but they are also unevenly distributed. For example at the end of June 1972, out of the total of 760 bank offices in West Bengal 293 were in Calcutta and 101 in the 24-Parganas district. The number of bank offices in the other districts was very small, being only eight in West Dinajpur, 12 in Purulia, 11 in Cooch Bihar and 18 in Bankura.

But why has the growth of banking facilities in West Bengal been far slower than in many other states? One major factor, of course, was the prolonged political instability in West Bengal until about two years ago, which had its inevitable impact on economic development. Evidence of the stagnation in business activity in West Bengal can be had from the fact that while in Calcutta the number of cheque clearances increased from 12,353,000 in 1968-69 to 13,048,000 in 1972-73, in Bombay it went up from 29,918,000 to 43,880,000. The amount involved in these clearances in Calcutta rose from Rs 6251 crores in 1968-69 to Rs 8328 crores in 1972-73 while in Bombay this increase was from Rs 10027 crores to Rs 16843 crores.

After Mr Siddhartha Shanker Ray's ministry was formed over two years ago, business activity in West Bengal was expected to gather rapid momentum but, unfortunately, the persistent power shortage was a serious impediment. The erratic and extensive load shedding not only crippled industrial production but also severely disrupted work in government offices and commercial firms. Most banking operations practically came to a standstill during the periods of load shedding. In this situation, it is hardly surprising that the expansion of banking activities in the state has not received any impetus.

It is hoped however that in coming months it will be possible to open more bank offices in West Bengal especially in those districts which are relatively backward. The government of West Bengal set up in last November an infrastructure corporation but this seems to be working in a leisurely way. It is necessary that this corporation should be able to operate energetically so that the availability of various kinds of infrastructure all over the state, like water supply, transport and communications can be quickly and substantially increased and banks will be induced to extend their activities to these areas. It is particularly important to speed up the programme of rural electrification. While many states have been able to achieve impressive progress in electrifying their villages, West Bengal has been able to introduce power only in about 10 per cent of its villages. If the government of West Bengal is keen to provide more banking facilities, it should accelerate the improvement of all kinds of infrastructure throughout the state.

But the mere opening of more bank offices is not going to be of much help to West Bengal unless they always operate at a high level of efficiency. It is unfortunately true that since their nationalisation the services provided by banks have generally deteriorated all over the country. In West Bengal business organisations have repeatedly drawn the attention of the Reserve Bank and the union Finance ministry to the difficulties in dealing with the banks. The complaints have related to delays in receiving payments and in clearing cheques, non-availability of currency notes of the required denominations, return of cheques on flimsy grounds, dishonouring cheques despite adequate balances in the accounts, and so on. It seems that the banks have lately been trying to improve the quality of their services but it is necessary to tone up vigorously their efficiency at all levels so that they can effectively serve the public, especially industry and trade.

Banks in West Bengal have to play a dynamic role in the development and diversification of industry and in creating opportunities for employment. Mr Chavan said in the Rajya Sabha recently that West Bengal had secured the first position in the country in regard to the release of bank loans for the educated unemployed. But it is not known to what extent the availability of bank loans has actually helped West Bengal to create more productive employment for the educated persons. In any case, this problem has persisted in West Bengal in a chronic form for a long time. As Mr Sankar Ghose said in his budget speech in February this year, "the problem of unemployment and under-employment in West Bengal is most acute. Though there are differences of opinion as to the number of unemployed in the state, even on the basis of the latest figures available from employment exchanges, the number of unemployed in West Bengal is undoubtedly the highest in the country. Moreover, the rate of growth of population in West Bengal during 1951-61 and 1961-71 has been 32.8 per cent and 26.8 per cent against the all-India averages of 21.5 per cent and 24.8 per cent respectively. In fact, the population density in West Bengal (1,032 persons per sq. mile) is the second highest in India. "The state government therefore has to undertake a series of programmes in industry, agriculture, transport, communications and other fields with a view to generating more jobs and the banks have a major role in ensuring the success of these schemes. Besides, the banks should also be able to contribute substantially to the promotion of self-employment for which there is, indeed, tremendous scope in West Bengal. But both the state government and the banks have to display a great deal of initiative, imagination, and enthusiasm in promoting self-employment in a big way.

Incidentally, it is interesting to note that, despite the economic stagnation in West Bengal, it has been possible for the state government to achieve record collections in small savings. West Bengal's small savings collections amounted only to about Rs 34 crores in 1971-72 and rose to Rs 60 crores in 1972-73. Mr Sankar Ghose has claimed that this was the highest collection of small savings in any state in India in 1972-73 or in any previous year. West Bengal's target for small savings in the fourth Plan was Rs 70 crores but the latest figures show that the collection was more than Rs 100 crores. The savings potential in West Bengal seems to be quite substantial and the banks themselves therefore should show more interest and initiative in extending their activities in this state.

Reserve Bank puts the record straight

THE ANALYSIS contained in the annual report of the Reserve Bank for 1973-74 of the trends in bank credit in the last two busy seasons clearly indicates how special factors, along with the imported inflation, were responsible for the unprecedented pressure on the resources of the scheduled commercial banks. The monetary authorities have done well by admitting that serious difficulties would have been created for industry and trade if a flexible policy had not been adopted when disbursing credit in the last busy season and the fresh complications arising out of a sharp rise in the cost of imports of raw materials and components had not been taken into consideration. The details relating to credit trends in the 1973-74 busy season have already been furnished by the Reserve Bank but it was not so forcefully discussed how the attempts of the government to window-dress its overall deficit for 1973-74 and how the increasing reliance of the public sector undertakings for their requirements of working capital on the banking system resulted in an unexpected growth in credit in particular directions.

In retrospect, it would appear that there was an attempt at inventory building by even industrial units in the private sector or a compulsion to utilise bank finance to a greater extent than before for maintaining inventories because of the full absorption of internally generated resources in the implementation of expansion or new schemes in the 1972-73 busy season. It is also likely that term loans were taken in larger volume by many industrial units before the strict directives were given by the Reserve Bank to the member banks that long-term credit should, as far as possible, be avoided by them. It is not possible otherwise to explain how the residual sector got as much as Rs 588 crores in the 1972-73 season even when prices were much lower than in the current year against Rs 427 crores in the 1973-74 busy season.

What is really interesting to note is the fact that out of the aggregate expansion of credit of Rs 1,175 crores in October 1973-May 1974, against Rs 916 crores in 1972-73, procurement credit increased by Rs 190 crores, against only Rs 6 crores. It is pertinent to point out here that the increase in procurement credit was due only to the extent of Rs 110 crores on account of larger buffer stocks though higher procurement prices also necessitated a bigger outlay for even the same quantity. But the burden on the banking system increased by Rs 80 crores in March this year, when the government was frantically attempting to reduce its overall budget for 1973-74, with the Food Corporation making a payment of this sum to the central government in discharge of its obligations. There must have been similar adjustments in other directions though it has not been possible to quantify precisely what the total impact of these one-time adjustments is on the use of bank funds.

It has been actually observed in the report that "there were indications that the cuts in government's current spending were achieved in part by an addition to the book debts of suppliers, including public sector enterprises". It has also been observed that "a good part of the increase in the bank credit to the commercial sector was a consequence of the policy of shifting a part of the budgetary burdens on to the banking system".

Against this background it will not be wrong to presume that exceptional factors alone were responsible for a bulge in credit in the last busy season. Making the necessary allowance for the shifts in the burden of the government to the banking system and the one time adjustments relating to the return of loans to the government by industrial and trading units in the public sector, net expansion of credit for productive purposes has been on a scale which has had a hurting effect on the operations of many industrial units. The managements of these affected units are now engaged in an exercise with the monetary authorities for securing larger drawing limits for meeting the increased requirements of working capital consequent on higher prices for imported raw materials and components and an increase in production with the implementation of expansion schemes. The difficulties have arisen even after accepting deposits and loans from the public up to the limits stipulated by the Reserve Bank and also

after delaying payment of bills to traders and suppliers.

There will probably have to be a liberalisation of credit limits by Rs 150-200 crores with a proper safeguard for enabling industrial units to step up production and maintain balanced inventories. Even though there were indications in recent weeks that the declining trend in prices for some commodities in the international markets may be helpful in replacing earlier high-priced inventories with low-priced counterparts in the coming months, the advantages in this regard, so far as the banks are concerned, are likely to be offset by higher procurement prices for foodgrains and increase in the minimum price for sugarcane and therefore in prices for levy sugar and possibly an upward revision of prices for some other products like steel, cement and coal.

The strain created by the indiscriminate administration of the credit policy in recent months by many banks, notwithstanding the flexible approach adopted by the central banking institution, will be evident from the fact that apart from procurement credit accounting for Rs 190 crores against Rs 6 crores in 1972-73 export credit had to be increased by Rs 214 crores against Rs 114 crores. Public sector undertakings required an extra Rs 125 crores against Rs 86 crores and borrowers in the priority sectors another Rs 219 crores against Rs 122 crores. The residual sector as stated above got only Rs 427 crores against Rs 588 crores. It is difficult to say how the provision of larger credit for use by exporters and borrowers in the priority sectors enabled the residual sector to increase its liabilities against outstanding bills. But the Reserve Bank itself has stated that the proportion of export credit to the total of advances of member banks has risen significantly implying that remittances against export bills were slower than usual. It will probably be necessary to analyse even more closely the data for the last two busy seasons as unusual factors have been in operation even while difficulties were being experienced in managing an unusual situation arising out of an unprecedented rise in prices. An independent assessment is necessary in order to be in a position to formulate new policies to enable the central banking institution to administer its credit curbs more meaningfully and make the best use of available resources.

In view of the new developments and fresh complications arising out of shifts in burdens and changes in policies relating to the fixation of prices and marketing of essential commodities, it is necessary to have an open mind when dealing with problems relating to credit expansion in the 1974-75 busy season. The Reserve Bank has already indicated that the dearer money policy would be pursued in the coming months and high interest rates have come to stay so far as its discounting of bills under the bill market scheme and lending against refinance facilities are concerned.

But it will be wrong to charge usurious interest rates on aggregate advances even when banks are borrowing on a much smaller scale than in the last busy season from outside agencies for meeting overruns. Even in the western countries the feeling is gaining ground latterly that dearer money by itself cannot provide the correct answer for the ills flowing from the unprecedented hike in oil prices and some positive steps will have to be taken for stimulating activity in the stock markets and combating recessionary trends. The monetary authorities in the country will be failing in their duty if they do not take note of these new trends in thinking. They may continue the dearer money policy for some time but there should be an attempt to have an integrated interest rate structure and eliminate the anomalies now prevailing in some directions. It is also important that credit should be liberally available for genuine purposes and the new policy of attempting to restrict total lending to available resources after meeting heavy statutory obligations should not have unduly harsh effects during the peak of the new busy season.

Minorities, migrants and the brain-drain

B.R. Bhagat

IN RECENT times, the question of persons who may not be the citizens of a country but are living and working there has come for detailed study in the several United Nations bodies. In 1972 the expulsion of Asians, mostly of Indian origin who had taken UK citizenship, from Uganda was taken up by the UN Sub Commission on Protection of Minorities and Prevention of Discrimination as a matter of violation of human rights. The issue was debated hotly and the consensus emerged that these persons even though not citizens of Uganda should be treated humanely and in accordance with the provisions of the universal declaration of human rights. This question was important inasmuch as it related to an ethnic minority living in a country with predominant black majority who themselves have been subject to a worst kind of racial discrimination by the white minority. On a special request of the Human Rights Commission, this matter was taken up for study in depth by the Sub Commission on Prevention of Discrimination and Protection of Minorities. On an examination of the existing international covenants of human rights, the Sub Commission came to the conclusion that this problem is not only urgent but can lead to further complications in many parts of the world where a large number of persons who are not citizens of the country are living and working.

> Mr B.R. Bhagat, MP, is now a member of the UN Sub Commission on Protection of Minorities and Prevention of Discrimination elected by the Human Rights Commission. Earlier, in 1972, he was chairman of the Sub Commission when the important issues he is discussing here were first taken up by the Sub Commission, mainly through his initiative.

well-known problem

Not only are there several millions of people of Asian origin in eastern and southern Africa and other countries of Asia and West Indies, but as many as 11 million people from south Europe, i.e. Italy, Spain, Greece, and Yugoslavia and western Africa who are working in north and western Europe mostly West Germany, Switzerland, France, Sweden and England. The problems of Asians in east Africa are well-known and have given cause for anxiety to India, Pakistan, Bangladesh and the UK. This problem has been taken up bilaterally by the governments of India and the UK with the governments of the countries of east Africa. On the whole, India has followed a policy of restraint in dealing with the developing and non-aligned countries of east Africa. Despite our close relations, an uncertainty lies over the head of these people and it would require tact and diplomacy on our part along with wisdom and generosity on the part of the east African countries to solve this problem in a manner which causes least dislocation and suffering to these people.

The problems of the migrant workers as they are called in Europe is more economic in character. They want equality of treatment in wages and other trade union rights along with the citizens of these countries. Political problems are inherent in the increasing numbers of these workers in Switzerland, where they come to form a large proportion of the local population. Similar situations may arise in other countries of Europe, where migrations reach a high proportion as in Switzerland.

On both these problems the conclusion in the Sub Commission was that economic, civil and cultural rights should equally apply to these non-citizens. The only limitation is of the enjoyment of the political right, i.e. participation in the formation of government and the right to vote. Obviously, this cannot be extended to persons who are not citizens of a country. But it is generally agreed that in the enjoyment of other rights like those of employment, housing, education, medical benefits and other cultural rights they should be treated on a par with the local population.

In respect of the right to property, again, there should not be any arbitrariness in taking over their property as was done in Uganda. In this matter also the national laws about right to property should apply to these persons. They should be given reasonable compensation like other citizens whenever their property is nationalised or taken over by the government. It is hoped that the Sub Commission's recommendations about the application of these rights to the non-citizens of a country in a positive manner will be adopted by the Human Rights Commission, the Economic and Social Council and finally the UN General Assembly in the near future. Without the clear declaration of economic, civil and cultural rights of these ever-increasing migrant workers from economically weaker countries to more affluent countries, serious political problems may arise between such countries and adversely affect the well-being of these people.

economic effects

Another aspect of the same problem has been under study by another body of the United Nations i.e. United Nations Conference on Trade and Development (UNCTAD). This matter, i.e. economic effect of the outflow of trained personnel from developing countries which is popularly described as the 'brain-drain', has assumed wider and deeper economic connotation. Due to the faster and larger means of communications it has become possible for persons particularly the students, scientists, engineers and doctors to go in increasing numbers from one country to another in search of advanced study and employment.

In its study which is described as the 'Reverse Transfer of Technology', the UNCTAD secretariat has determined that over 53,000 people moved to the United States between 1961 and 1970. In 1965-70 alone, more than 20 per cent of the net additions to the employment of scientists and engineers in the United States came from abroad. Brain-drain of this kind is essentially a reverse transfer of technology.

The United States is the biggest recipient of this brain-drain and India is one of the biggest donor countries in this international transfer of skill. The study maintains that in 1970 alone the income transferred through this brain-drain to the United States comes to around $3.7 billion. This is the contribution of the developing countries to the development of the United States. In comparison, the United States official development assistance to developing countries in the same year was $3.1 billion. The significance of this total of income transfer ($3.7 billion) may be more easily appreciated if it is compared with some other relevant magnitude. It was equivalent to over 0.3 per cent of United States' gross domestic product, nearly 14 per cent of total United States' expenditure on research and development, and about 39 per cent of United States' current expenditure on higher education. From India alone 3,141 scientists, engineers and doctors went to the United States in 1970 and their total contribution to that country was of the order of $ 874.5 million.

The overall picture that emerges is one of massive net incomes transfer from the developing countries to the United States in the form of brain-drain. It is also of interest that some of the biggest contributions are made by countries that are among the poorest in the developing world itself.

Breakthrough on the GATT front?

London

E. B. Brook

AMID A welter of urgent, anxious conferences the best news so far this month has come from the USA where government officials and the Congress have become more confident of enacting the Trade Reform Bill into law by mid-October, removing a threat of slow movement and delays in world trade talks due to begin in Geneva late that month. In Washington it is increasingly realized that moving forward the round of new trade negotiations begun in Tokyo to realistic bargaining is one of the most obvious ways to help check the world-wide inflation and financial nervousness that plague governments and individuals. In any case, it is a year since the Tokyo Round was set in motion at a ministerial meeting in Japan but that widely-applauded "unprecedented global assault on tariff and non-tariff barriers" has been stuck ever since while the biggest industrial states have experienced their oil-price shock, the value of money has shrunk frighteningly and banks in the western world have given alarming evidence of their fragility in foreign exchange operations. In west Europe the Tokyo Round has been all but forgotten in a smother of emergencies to such an extent that the Market has yet to set up its representation at Geneva.

The second best piece of news emerging from the pervading anxiety comes from the chairman of the Union des Banques Arabes et Francaises in Paris who insists that the problem of bringing the funds paid to middle-east states for oil back into productive investment and solving west Europe's liquidity worries is too big for anything but government to government accords for which an international conference between oil-producing and consuming states would be necessary. This seems to be the first effort at sufficiently constructive thinking there has been yet on this difficult subject. The middle-east and north Africa with other oil producers have been sitting in nervous uncertainty on their growing funds while in west Europe every example of Arab investment, of even a few million dollars, has been hailed almost childishly and certainly competitively as a sign that the USA, Britain or West Germany is the new home for re-cycled funds.

These Arab investments, although total billions of dollars, when put into perspective against the magnitude of oil earnings, look rather small. Few in west or east appear fully to realize the magnitude of the re-cycling problem. This year the oil-producing states will amass about $53.3 billion, rising to an accumulated net surplus of $235 billion by 1980, the date when North Sea oil is expected to present the middle-east with a competitor. Of this year's $53 billion revenue less than one billion dollar will have gone into foreign stocks or real estate. If Arab governments spend all their planned outlays on internal costs and investment this might absorb $26 billion this year, but a more probable figure will be only about $22 billion, leaving another $25 billion or more for investment abroad. This is likely to find its way principally into US banks on short-term deposits, the rest going to Swiss and British banks on the same terms, providing them with another problem of huge repayments next year or in 1976 with liquidity problems already distracting their managements. Arab money, it seems, will turn eastwards to Singapore, Hong Kong and Tokyo only if the Americans and Europeans put limits on deposits—some move in this direction has, under federal persuasion, been made already in the USA. In Europe, the French are pinning hopes on their cooperation plans with the middle-east to be further considered in November, the British watch property passing into Arab ownership and the West Germans take in the Iranians as partners in some of their most prestigious industries.

WINDOW ON THE WORLD

towards political union

Meanwhile, in France and Basle, finance ministers and central bank governors talk secretly and anxiously as to what is best to be done, the Common Market presents its members with a record budget of about £2,900 million, an increase in expenditure of 37 per cent above last year's total, Europe's farmers prepare for massive demonstrations for higher prices and the enterprising French President invites Common Market leaders to discuss another European summit. The main result may be to transfer much power of decision from the Market's Commission to the Council of Ministers but whether, in present circumstances, west Europe can be moved forward faster towards unity seems very questionable. The purpose of the French President's "summit" would be "to reflect together on the time-table for political union". This time-target has already been selected—1980—but it is remarkable that a completion date should be fixed before the participants have either decided what they mean by political union or, as with the British, whether they really want to be in any sort of union at all. The British have seen many Market hopes vanish and, irrespective of party, are highly suspicious of the whole business which has raised many of the domestic prices they have to pay. Since no one has defined what European political unity means or how it will work these highly publicized junketings in France seem not a little beside the point, more especially since the Market has almost stagnated since the oil crisis of last year. Many in

Europe think the Market is altogether too parochial for the present world situation and in face of determined nationalism everywhere. The idea of a federal west Europe rouses little enthusiasm or interest today when Europeans have seen how the Americans with their dollar and the Arabs with their oil can push them around.

What concerns the west European today is how much his money is really worth, how safe is his bank and how much he must pay to run his car, heat his home or run his factory. Inflation, it is accepted, is with us for years—the Icelanders, with the highest rate of inflation, are said to be happy with it, raising wages as prices steadily go up and printing ever more money to supply the increasingly worthless cash. Not everyone can be so lighthearted. The Market's six major finance ministers have sought (but not necessarily found) ways of making their economies more independent of oil imports, better exchange of information about banks' forward dealings in international capital markets and decided that on no account must any measure taken over inflation reduce the growth of world trade or threaten employment. Each government watches prices carefully and would prefer to see its currency sink further in value than workers, who are voters, put out of employment. Nothing, in brief, must be done that will avoidably increase the unpopularity of governments or of the parties forming them. While the French and West Germans would like a policy of deflation and credit restrictions the British will have none of either, urging that deflation and unemployment in Britain would mean exporting the British deficit to primary producers and making it, even more difficult for industrially developing countries either to trade or provide raw materials.

The money worries have brought the banking industry severely under fire. The Franklin Bank in the USA, Herstatt and a number of smaller banks in W. Germany, the Union Bank and two smaller ones in Switzerland and a heavy foreign exchange business loss by Lloyds have all created public distrust. Further losses can be expected before the year's end. *The International Currency Review* has accused the banking community of trying to hush up "abuses and excesses", of the growth of dangerous practices with "staggering sums" in banking, lack of senior supervision, of the use of the Eurocurrency market by international crime and of bank losses of as much as $ 10,000 million in supporting major currencies beset with devaluation. The private depositor and the taxpayers take the final burden and the loss of confidence is seen in a heavy falling off in deposits in west European banks. Some of this may be a trifle harsh but that there is much fire under this smoke is proved by the efforts of central bank governors last week to bolster confidence in the international financial system. It remains to be seen if promises of more information and tighter controls will reassure the depositors or if a "run" is developing.

IMF finds world economy in throes of violent inflation

AT MID-1974, the world economy was in the throes of a virulent and widespread inflation, a deceleration of economic growth in reaction to the preceding high rate of expansions, and a massive disequilibrium in international payments. These are among the major observations set forth in the annual report of the Executive Directors of the International Monetary Fund. The Report characterizes this situation as constituting perhaps the most complex and serious set of economic problems to confront national governments and the international community since the end of World War II. In view of this combination of circumstances, the Report stresses the need for international cooperation of a quality rarely achieved in the past, stating that in its absence the pursuit of unduly nationalistic policies in disregard of their impact on other countries could greatly exacerbate the problems now confronted.

The Report points out that, in light of the appearance of grave uncertainties on the world economic and financial scene, the Committee of the Board of Governors on Reform of the International Monetary System and Related Issues (the Committee of Twenty) shifted the priority of its work from longer-term reform to the reaching of agreement on numerous important aspects of reform affecting the immediate interests of both developed and developing countries. Although the results of the Committee's work on longer-term reform were less comprehensive than had been hoped for when the Committee began its work in September 1972, a substantial measure of agreement has been achieved on the broad objectives of a reformed system; and the programme of action initiated at the final meeting of the Committee in June 1974—as described in the chapter of the Report dealing with Fund activities—provides the basis for an evolutionary process of reform which could be of great help in dealing with current international payments, problems, and which could prove, in itself, a significant step in the evolution of the international monetary system.

In a separate chapter the Report reviews the adequacy of international reserves against the background of such exceptional occurrences as the realignment of parities and widespread adoption of floating exchange rates, the developments relating to gold, and the changes in balance of payments prospects as a result of developments in the markets for essential commodities, particularly oil. The Report finds that a situation of global reserve ease prevailed during most of 1973, but that it was declining in the course of 1973 and that symptoms of greater reserve stringency emerged in 1974.

After more than a decade of generally rising rates of price increase, inflation accelerated rapidly in the past two years, the Report notes. This acceleration was compounded by the upsurge of most primary commodity prices in the wake of the widespread economic boom and by the recent sharp escalation in the price of oil. The average annual rate of inflation in industrial countries, already seven per cent in 1973, reached 12 per cent (in terms of GNP deflators) in the first half of 1974, when even those countries with the lowest rates of price increase were experiencing inflation on a scale considered unacceptable. This course of developments, marked by the formation of a deeply embedded inflationary psychology, has brought into focus the need for countries—especially the largest

ones—to pursue a strategy to curb inflation before it leads to serious and prolonged damage to the world economy.

Such an essential strategy must be instituted at a time of marked economic slowdown in the industrial countries. Under the impact of cyclical influences and of developments relating to oil, the volume of total output in the industrial countries suffered an outright (though small) decline in the first half of 1974, and the effects of this unusual development were in process of spreading to the primary producing countries. At mid-1974, notwithstanding a general expectation that expansion of the main industrial economies would be resumed in the second half of the year, diagnosis of the balance of expansionary and contractionary forces in the world economy was uncommonly difficult, the Report points out, and the pursuit of anti-inflation programmes centering on policies of financial restraint involved, of necessity, the incurrence of certain risks.

recent boom

The Report draws attention to several distinctive features of the recent boom that appear to offer grounds for an explanation of the exceptional rate of price inflation that has developed. Among these were the high rates of price increase sustained through the previous economic slowdown and the upward momentum thus already prevailing at the beginning of the 1972-73 upswing; the magnitude of the increase in many primary commodity prices (even apart from oil), which has no parallel with earlier peacetime experience—a fact suggesting that to some extent these big increases were independent of the general process of inflation in the world economy; and the oil developments, especially the incidence of their cost-raising influences, since October 1973.

Clearly, these and other influences have been mutually supporting and reinforcing in their effects on prices. Their combined strength has recently reached such proportions, and has become so deeply embedded in public attitudes and expectations, that inflationary pressures are likely to persist for some time, the Report cautions, even if the stance of financial policies in all the larger countries were presumed to be wholly appropriate in the light of all legitimate domestic concerns. The Report observes that the problem of retarding the present momentum of price advances is greatly complicated by the ease with which impulses in one area are transmitted to other parts of the world, and calls attention in this regard to the price explosion that has occurred in international trade since 1972, following a long period of near stability.

The Report calls for a clear-cut strategy of policy to deal with the worldwide inflation problem before it gets further out of hand. Although suggesting that all countries should be expected to contribute to a solution, the Report indicates that the chief responsibility in this regard falls on the industrial countries because of their sheer weight in the world economy.

The Report emphasizes that the fundamental need is to bring about and sustain a better balance between demand and supply—between the growth of aggregate expenditure and the capacity to produce. Although the policy stance may vary from country to country, it will generally be necessary for the industrial countries, over an indefinite period, to maintain a somewhat lower pressure of demand on resources than has been customary. During this cooling off period, the Report suggests, demand management policy should aim for a progressively lower rate of price inflation and—to support this aim—should become less ambitious on the growth side. Growth rates somewhat lower than those aimed for in the past might well have to be accepted. Similarly, unemployment might have to be somewhat higher—as it recently has been in most industrial countries—in relation to traditional targets. In addition to a changed approach in demand management policy, requiring (inter alia) acquisition of better control over the national budget, the Report emphasizes the importance of complementary measures to improve supply conditions, to strengthen productive capacity and productivity, and to alleviate cost pressures; without such measures, including those directed specifically to achieving higher levels of saving and investment, the task of general demand management would be rendered considerably more difficult.

effective approach

In this context, the Report states, the present circumstances call for a renewal of the search for effective approaches to incomes policy—for efforts to exert direct influence upon the movement of wages and prices in the public interest. Although such measures are difficult to devise and implement, and must be geared in each country to its own institutions, traditions, and situation, the absence of such measures might make it very difficult to limit the effects of cost pressures on prices and to achieve price moderation except at the expense of greater slack and employment.

In the area of international trade and payments developments, the Report draws a picture of exceptionally large changes in foreign trade prices and values, bringing substantial shifts in the payments situations and prospects of many countries since the previous Annual Report. Some of the changes in trade prices and values have stemmed from the major currency realignments of early 1973 and subsequent fluctuations of exchange rates under a regime characterized by widespred floating.

increase in volume

The volume of world trade increased by some $12\frac{1}{2}$ per cent from 1972 to 1973, compared with nine per cent—a rate of growth close to the long-term average—in the previous year. Since about the middle of 1973, however, a tapering of the expansion in world trade has accompanied the slowdown of real economic activity in the industrial countries. For a number of primary products moving in international trade, limitations of current supply—including those stemming from droughts and other natural forces—also appear to have been a factor in this deceleration (as well as a factor contributing to the upward pressure on prices). The rate of expansion of world trade in real terms in the first half of 1974 was probably much below the trend rate, in sharp contrast to the experience in 1973.

In discussing the extraordinary succession of increases in prices of primary commodities since about the end of 1972, the Report emphasizes that focus on the approximate tripling of the average export price of crude petroleum from September 1973 to January 1974 should not be permitted to overshadow the fact that exceptionally large price increases occurred throughout a wide range of commodity categories during 1973 and early 1974. Some of the largest increases were particularly significant not only as factors in the growth of export earnings of the producing countries, but also as elements of the increased costs confronted by importing countries in all major regions.

After discussing some shifts in the terms of trade, which for 1974 seem almost certain to move against all major groups of countries except the oil exporters (particularly against those industrial countries whose oil imports are large and whose exports consist predominantly of manufactured goods, as well as certain developing countries whose own export prices have not shared in the general upward trend), the Report turns to international payments developments. From 1972 to 1973, the main shifts were a rise in the balance of payments surplus of the oil exporting countries and large changes in both current account balances and net capital flows recorded by various industrial countries. The current account balance of the United States swung sharply upward, from a deficit of \$ 7 billion in 1972 to a surplus of \$ 3½ billion in 1973, while the Japanese current account surplus, amounting to \$ 7 billion in 1972, virtually disappeared and the UK and Italian current accounts both showed swings of some \$3-3½ billion from surplus to deficit. The other principal change was a rise of about \$4 billion in the current account surplus of Germany (W.), to almost \$7 billion.

For 1974, the Report notes, the prospect for current account balances is one of startling changes, dwarfing those recorded for 1973. These changes are likely to involve not only large swings in the balances of a great many individual countries, but also a massive shift in the global structure of balance of payments of relationships among broad groups countries. On the central working hypothesis that the level of oil export prices prevailing in the first half of 1974 will be maintained throughout the year, the combined current account surplus of the major oil exporting countries will go up very sharply—to about \$ 65 billion as an order of magnitude. The increase of some \$60 billion over the enlarged 1973 surplus would have its counterpart in a deterioration of similar magnitude for all other countries combined. The situation may be especially serious for developing countries that are net importers of higher-priced cereals, as well as oil, and whose own export earnings have not shared strongly in the recent upsurge of primary commodity prices.

effective coordination

The Report emphasizes that the present enormous disequilibrium in international payments on current account, being wholly unprecedented in size and character, requires particular types of policy response on the part of the oil consuming countries. As a group, they must accept a sharp deterioration of their combined current account in 1974; and they must strive, while making necessary adjustments in relation to each other within the context of the new situation, to achieve close and effective coordination of their external policies and to avoid mutually injurious defensive measures. Lack of such an internationally cooperative response, the Report warns, could seriously damage the world economy.

As to the financing of the "oil deficit," the Report notes that financial markets appear to have operated reasonably well in the early stages of reflows of funds from the oil exporting countries, but that the question remains whether the Eurocurrency market will prove adequate over an extended period to the financing task that is envisaged. Concerns related to this question suggest that the major industrial countries should consider possible ways and means of minimizing the hazards involved and assuring the maintenance of orderly conditions in the Eurocurrency market. They also suggest an important need to promote alternative channels of finance, such as the Fund's recently established oil facility, through which capital can flow from the surplus to the deficit countries. Even with the new oil facility, official financing facilities and arrangements are clearly not adequate in the case of the developing countries; and, calling the problem both serious and urgent, the Report stresses the need for a greater flow of capital on concessional terms and of grant assistance to those less developed countries—mostly with extremely low income levels—that have been affected most severely by recent international economic developments.

adjustment issues

With respect to balance of payments adjustment issues facing the oil importing countries, the Report suggests that these countries should lean towards policy choices consistent with the global demand situation and conducive to the abatement of inflation both nationally and internationally. Under criteria based on such principles, countries in a relatively strong balance of payments position would be expected to go as far as they felt was reasonable in expanding demand without weakening the fight against inflation, and thereby to provide support to the growth of world trade and activity; in the externally weaker countries, demand would be restrained enough to shift domestic resources to the balance of payments by dampening imports and facilitating exports. Among the more specific elements to be considered in connection with adjustment problems, the Report gives particular attention to the ability of countries to attract capital, noting that the assessment of current account positions depends critically on the picture for international capital flows. Citing the evident willingness of countries to borrow in order to cover oil and other deficits, the Report suggests that there may be some danger that official financing will bulk too large compared with adjustment via demand policy adaptations or exchange rate changes. Unduly heavy official borrowing enables countries to sustain currency values and domestic expenditures higher than they otherwise would be, resulting in undue pressure on the resources of other countries. However, there is also an opposite danger that some countries, reacting to the pressure or prospect of mounting indebtedness, may seek to adjust their current account positions at an unduly rapid pace, to the disadvantage of their trading partners. Thus, a key policy question at present concerns the relative weights to be assigned to adjustment and financing, the Report says, adding that resort to measures restricting current transactions would be a matter of serious concern. Some reactions of this type have already occurred, the Report observes and generalization of such developments could have grave consequences.

investment of surpluses

As to the oil exporting countries, the Report states that, on the assumption that present levels of oil prices and production are sustained, comparatively little external adjustment is feasible in the short or medium run. The main general problem they face immediately is how best to invest the counterpart of huge current account surpluses outside their countries. Beyond the medium run, however, this problem seems likely to remain dominant only for oil exporting countries with small populations and relatively low capacity to absorb goods and services from abroad. Other oil exporting countries with large populations generally can be regarded as having a relatively large potential for domestic economic development. It seems likely that, in time, these countries will be spending a high proportion of their sharply expanded volume of foreign exchange earnings. Their main task is to raise the rate of development spending effectively, without intensifying domestic inflation.

II

The stock of international reserves increased during 1973 by the equivalent of SDR 6.9 billion, after growing by more than SDR 70 billion during the previous three-year period. Aggregate holdings of all countries reached the equivalent of SDR 153 billion at the end of 1973, which was slightly more than twice their level at the beginning of 1970.

For the first half of 1974, preliminary indications are that official holdings increased by some SDR 12 billion or more. The reserves of the major oil exporting countries as a group appear to have more than doubled, while the net change for all other countries combined is likely to have been quite small. In particular, complete reports for the industrial countries show that this group's reserves, which account for a substantial share of the world total, were much the same at the end of June 1974 as they had been six months earlier. Partial data for the developing countries other than the oil exporters suggest some increase in the holdings of the group during the period. The Report notes that virtually the whole rise in countries' total reserves was directly attributable to the foreign exchange element, which by the end of 1973 accounted for as much as two thirds of the total stock.

expansion of reserves

The net expansion in official reserves in 1973 came about in spite of a devaluation of the US dollar that considerably reduced the value of the reserve stock in terms of Special Drawing Rights (SDRs). In February, the value of the US dollar was reduced *de facto* by 10 per cent in terms of gold and of other assets held as reserves that had a fixed value, notably Special Drawing Rights and reserve positions in the Fund. As a result, official US dollar holdings—including both dollars held in the United States and Euro-dollar holdings—have declined in value against SDRs. The reduction in the SDR value of such assets—and hence the reduction in the total reserve stock—has been estimated by the Fund staff at the equivalent of some SDR 8.6 billion.

The Report finds that, of those sources that can be identified, the financing of the imbalance between the United States and other countries made the largest contribution to reserve change during 1973, but its influence diminished greatly compared with previous years. Claims on the United States continued both to constitute the bulk of foreign exchange holdings and to form the largest single type of official reserves (SDR 55.4 billion at the end of 1973). Other kinds of foreign exchange claims in aggregate, however, are not notably smaller, and the increase in officially held claims other than those of the United States nearly matched the exceptionally large increase that had occurred in the previous year. During 1973, they rose by almost SDR 11 billion and, even after allowance for the reduction in the SDR value of the dollar-denominated portion because of the devaluation, reached a stock total that is estimated at about SDR 47 billion at the end of the year. At that level, they were considerably larger than the world's holdings of gold valued at the official price (SDR 35.8 billion).

The growth of foreign exchange other than dollar claims in the United States was widely dispersed over a variety of forms, some of them traditional but most of rather recent origin. In reviewing these developments, the Report cautions that available data are not as complete and reliable as could be desired, but despite these reservations the estimate is made that identified Euro-dollar holdings at the end of 1973 accounted for almost two-fifths of foreign exchange other than claims on the United States, and this proportion could actually be much higher depending on what part of the unidentified residual as well may consist of Euro-dollar holdings.

The Report reviews some of the recent developments that have had an impact on reserve ease. It says that it has generally been taken for granted that greater flexibility in adjusting exchange rates would reduce the extent to which countries use reserves in intervention. This would suggest that one of the major motives for holding reserves would have been weakened so far as an important group of countries are concerned, and therefore that the global need for reserves would have declined.

several reasons

The Report then lists several reasons for questioning whether the need for reserves has declined as much as is sometimes assumed. First, even where currencies are floating independently their exchange rates are being managed rather than being allowed to float without intervention. Second, there are other motives for holding reserves in addition to their use in financing payments imbalance such as the need to preserve confidence and to serve as a basis for foreign borrow ing. Third, countries whose currencies are presently floating may be anxious to preserve the option of returning to a par value system when circumstances permit, and this would require the maintenance of a level of reserves appropriate to such a system. Fourth, the present system is one of limited floating in that the majority of countries still peg their currencies, and it seems likely that most countries which peg their currency to a floating currency will increase their use of reserves above the level experienced under a par value system because the fluctuation of the exchange rates of third currencies in terms of their intervention currency will tend to add to the variability of their payments balance.

The Report concludes that experience of the operation of a system of widespread floating is still too limited to permit assessment of the existence or magnitude of economies in reserve use as a result of floating, especially in view of the many other disturbing factors that have been present since March 1973. However, the Report observes that without the absorption of market pressures through exchange rate changes, the strains on individual countries' reserves in 1973 and early 1974 might have been much greater.

As to the developments relating to gold and their impact on reserve case, the Report finds that as long as the Washington arrangements of March 1968 were in force (whereby the Governors of the central banks of the United States and six European countries agreed not to sell gold on the private market) any significant premium of the price on the private market over the official gold price reinforced the reluctance of many countries to use their gold holdings. This tended to reduce the level of effective liquidity. If termination of the Washington arrangements had led central banks to be willing to sell their gold holdings on the private market, the central banks that hold substantial quantities of gold would have experienced a major increase in their effective liquidity, which would have been further reinforced by the strong rise in the price of gold on the private market. But the Report points out that termination of the Washington arrangements did not appear to have resulted in central banks being any more willing to sell gold on the private market, and that it remains to be seen whether the opportunity of using gold as collateral at a price different from the official gold price will provide a channel by means of which countries will once again become willing to use their gold holdings. The Report finds it probable that the combind effect of the developments of the past year has been to increase the effective liquidity of gold holding countries, possibly by a substantial sum.

potential implications

Analysis of a third set of recent events with major potential implications for reserve ease, the developments in the oil market, leads the Report to the conclusion that they are likely to cause a decline in the collective reserves of the oil importers but by less than the size of their oil deficit. Taking account of the facts that the demand for reserves by the oil importers is likely to rise and that the bulk of the oil exporters' reserve increases are in excess of their short-run needs, there is a presumption that—despite the expected increase in total reserves—the oil developments will tend to reduce reserve ease, even without allowing for any effect of the increasing indebtedness of the oil importers.

The Report takes note of the widely

held view that the situation has been changing in the direction of reserve stringency. It is, of course, possible that reserve stringency may not emerge because of a renewed growth of foreign exchange holdings, which are not under international management. A second possible source of increased reserve ease would be a development which increased the effective liquidity of gold holdings. Neither of these developments, however, would promote the agreed aim of increasing the role of the SDR as the main international reserve asset.

A third possible source of supply of reserves is the Fund. In addition to the possibility of a new allocation of SDRs, the Fund could play an important role through increased use of conditional liquidity, which has as a by-product the creation of additional reserves. The use of conditional liquidity may be expanded by the utilization of facilities such as the oil facility and the Extended Fund Facility; there is also the possibility of a large expansion in the size of the Fund on the occasion of the impending general review of quotas. In view of the evidence that reserve distribution has worsened in recent years, and the facts that conditional liquidity can be directed to those countries which have a particular need for additional liquidity and can be used to support programmes of adjustment to changed circumstances, there might be a case for substantial emphasis at the present time on this aspect of the Fund's potential contribution to the provision of liquidity.

III

Toward the end of 1972 and early in 1973 the foreign exchange markets were again subject to growing speculative pressures and to an intensification of large-scale short-term capital flows, the Report notes. Major developments in this period were the announcement by the US government in February 1973 that it was seeking congressional approval for a 10 per cent devaluation of the US dollar and the move to a more general floating of currencies. The intensification of inflationary pressures during the year, especially in the industrial world, and the substantial increases in the price of oil toward the end of 1973, brought about a dramatic change in the prospects for the balance of payments and reserves positions of members and for the working of the international money and capital markets.

These developments led, in turn, to a change in emphasis in the activities of the Fund and in the work of the Committee of the Board of Governors on Reform of the International Monetary System and Related Issues (the Committee of Twenty). In mid-June 1974 the Committee presented its final report, together with an Outline of Reform, indicating the general direction in which the international monetary system could evolve and proposing that a number of steps be taken immediately. At the same time, working in cooperation with the Committee, Executive Directors adopted on June 13, 1974 a set of important decisions that constituted a significant change in the bases on which Fund operations and practices are carried out. These decisions related to the establishment of an Interim Committee of the Board of Governors; to the adoption of Guidelines for the Management of Floating Rates; to the interim valuation and interest rate of the SDR, remuneration and charges; and to the oil facility.

role of consultation

In view of the evident need to preserve international monetary cooperation in a period marked by rapid economic developments and frequent changes in currency relationships, the Executive Directors gave renewed attention to the role of the Fund's consultations with members and initiated toward the end of 1973 a new procedure for special consultations with countries whose external policies are of major international importance. A second round of these special consultations in the first half of 1974 included several of the larger developing countries.

At a meeting in Rome in January 1974, the Committee of Twenty issued a communique stressing the importance, inter alia, of members avoiding competitive exchange depreciation and the escalation of restrictions on trade and payments. Subsequently, the Executive Directors took a decision that called on all members to collaborate with the Fund in maintaining orderly exchange arrangements. In its final communique of June 13, 1974 the Committee of Twenty stressed the importance of avoiding the escalation of current account restrictions for balance of payments purposes and invited members of the Fund "to subscribe on a voluntary basis to the Declaration concerning trade and other current account measures for balance of payments purposes." On June 26, 1974 the Executive Directors took a decision associating themselves with the invitation and concurred in the transmission to members of a letter from the Managing Director requesting that members inform the Fund whether they subscribed to the Declaration.

The agreement with regard to official gold transactions reached in Washington on March 17, 1968 between the governments of seven central banks was abolished in November 1973. This was followed, upon request from South Africa, by the termination of the Fund decision "South Africa: Policy on Sales of Gold to the Fund," which had been adopted toward the end of 1969. In other developments related to gold, the Fund approved requests for the postponement of repurchase obligations, incurred in gold, in view of the uncertainty about the future international role of gold; the Bahamas was permitted to become a member of the Fund without paying a portion of its subscription in gold; and, upon the request of Nepal, the Executive Directors recommended and the Board of Governors agreed that the fourth and fifth installments of the increase in Nepal's quota be postponed until April 30, 1976—each of those installments included the equivalent of SDR 200,000 in gold.

A major consideration of the Executive Directors in the first half of 1974 was to establish a new facility in the Fund to assist members in financing the initial impact of the increase in the cost of their oil imports. This so-called oil facility, which was established in June, was first discussed with the Executive Directors on the initiative of the Managing Director, who recommended it to the Committee of Twenty at its meeting in Rome in January. The establishment of the facility was accompanied by new borrowing arrangements between the Fund and oil exporting countries.

special facility

In July 1974 the Executive Directors continued with their consideration of another special facility, the Extended Fund Facility, designed to provide longer-term financial assistance for countries with structural balance of payments problems. At the same time, they were also working on the preparation of draft amendments to the Articles of Agreement for later consideration by the Interim Committee and for submission to the Board of Governors.

During the fiscal year 1973-74, which ended on April 30, 1974, the total use of Special Drawing Rights by participants was SDR 1,123 million as against SDR 518 million in 1972-73 and SDR 1,178 million in 1971-72. The major part of the 1973-74 total—SDR 996 million—was used in transactions by agreement (that is to say, without designation by the Fund) involving only five participants. The amounts of SDRs transferred in this way were substantially in excess of the totals of SDR 303 million and SDR 380 million transferred in similar

transactions in the two previous fiscal years. Transactions with designation (SDR 60 million) and the use of SDRs to make repurchases in the General Account (SDR 29 million) were at low levels compared with previous years. The General Account transferred a total of SDR 185 million to participants, of which SDR 157 million was acquired by participants needing to reconstitute their SDR holdings.

increase in transactions

The large increase in transactions by agreement between participants resulted from the use of SDRs by EEC members in settlement of obligations arising from intervention in foreign exchange markets under the European Narrow Margins Arrangement, the Report says.

No proposal was made on future allocations of SDRs during the fiscal year. The Managing Director continues to be obliged to make a proposal whenever he is satisfied that it could be made consistently with the Articles.

As in 1972-73, purchases exceeded total repurchases during the fiscal year ended April 30, 1974. Total purchases were equivalent to SDR 1,058 million, as against SDR 1,175 million in 1972-73. This was the smallest amount in any year since 1963-64. Nearly 60 per cent of all purchases were made within the gold tranche, including purchases by France, Germany, (W.) and the Netherlands totaling SDR 438 million related to settlement of liabilities under the European Narrow Margins Arrangement. Purchases under the compensatory financing facility amounted to the equivalent of SDR 212 million, or 20 per cent of total purchases, little change from the previous year. On April 10, 1974 the Executive Board approved a stand-by arrangement for Italy, the first one for this member, which authorized purchases equivalent to SDR one billion over a 12-month period.

Purchases under stand-by arrangements during the year declined from SDR 213 million in 1972-73 to SDR 179 million, the smallest amount purchased under such arrangements in 13 years. The total amount of stand-by arrangements approved in 1973-74, equivalent to SDR 1,394 million, was SDR 1,072 million above last year's figure. The increase was accounted for largely by the stand-by arrangement approved for Italy. With this exception, all other stand-by arrangements in effect in 1973-74 were for primary producing countries.

Repurchases amounted to the equivalent of SDR 672 million during 1973-74, an increase of 24 per cent over the previous year. A repurchase equivalent to SDR 110 million was made by the United States in accordance with a decision of the Executive Board, accepting voluntary repurchases up to the equivalent of SDR 400 million.

Charges on Fund holdings of currencies in excess of quota, the Fund's largest source of income, produced earnings of SDR 28.2 million during the fiscal year. The highest earnings (SDR 128.1 million) were in 1970-71. The remainder of the Fund's income, equivalent to SDR 10.3 million during 1973-74, came mainly from interest payments received on holdings of SDRs by the General Account. Operational expenses, amounting to SDR 27.2 million, again consisted entirely of payment of remuneration to creditor members. In 1972-73 these payments totaled SDR 29.3 million. The Fund's net operational income was SDR 11.2 million, a decrease of SDR 1.0 million from the previous year. Compared with SDR 34 million, in 1972-73, budgetary and fixed property expenses increased by SDR 14.4 million in 1973-74. Net expenses of SDR 37.2 million were charged to the Special Reserve, reducing that balance to SDR 351.7 million on April 30, 1974. A new schedule of charges was introduced effective July 1, 1974. This was the first change in the schedule of charges since May 1, 1963.

In 1973-74 the Fund completed 89 regular consultations with member countries, an increase from 85 consultations in the previous year. Consultations are a continuing and an important element in the work of the Fund. They not only provide the opportunity for reviewing in detail the economic and financial situation and policies of member countries but also establish a singularly effective setting for furthering international monetary cooperation. They help the Fund to deal quickly with members' requests for the use of Fund resources and proposals for changes in exchange rates and exchange practices. Also, for the individual member country the consultations provide an independent appraisal of policy and enable the member to discuss with the Fund any special difficulties arising from the actions or policies of other countries.

The Bahamas became a member of the Fund on August 21, 1973, bringing total membership at the end of the fiscal year to 126 members and aggregate quotas to SDR 29,189 million. An application from Papua—New Guinea for membership in the Fund, after it has attained independence, was before the Executive Directors at the end of the fiscal year.

The Fund has continued to provide member countries with a wide range of technical services in the fields of fiscal, monetary, and payments policy, banking, government finance, and statistics. The assistance has been made available through Fund representative and advisors, training at headquarters, staff missions, and the assignment of outside experts—and has again covered about two-thirds of the Fund's membership. In 1973-74, 35 Fund representatives or advisors were on assignment of six months or more in 23 countries; 240 government officials from 101 countries attended the courses of the IMF Institute in Washington; 72 staff members visited 29 countries on technical assistance missions; and 119 outside experts were on assignments of six months or more in 51 countries.

—International Monetary Fund

World Bank's record lending in 1974

FOR THE sixth consecutive year, the World Bank Group has approved a record total of development assistance to the poorer nations of the world. The figure of \$4,517 million for the year ended June 30, 1974, was \$962 million higher than in the previous year.

According to the annual report for fiscal 1974 the World Bank's borrowings also reached a record of \$1,853 million. Over 30 per cent of this sum came from oil-exporting nations.

Compared with fiscal 1973, the Bank's lending rose by almost \$1,200 million to \$3,218.4 million. As had been expected, the International Development Association (IDA), the Bank's concessional loan affiliate, committed virtually all the resources available to it by the end of the year. Its commitments, totalling \$1,095.2 million, were \$250 million less than in fiscal 1973. The International Finance Corporation, another Bank affiliate, made investments worth \$203.4 million.

Lending for agriculture and rural development accounted for over 22 per cent of total Bank and IDA commitments. The proportion for transport was similar. The share of projects in the power sector, including the largest-ever Bank loan for a single project—\$148 million to Turkey—was 18 per cent of the total, the Report adds.

record levels

Disbursements by both the Bank and IDA reached record levels during the year, the Report notes. Disbursements by the Bank amounted to \$1,533 million, up by \$353 million from the previous year. It was the third year in succession that Bank disbursements had topped the \$1,000-million mark. IDA disbursements were \$711 million, against \$ 493 million in fiscal 1973.

The Report explained the rise in disbursements as a reflection of "inflation, the greatly accelerated pace of lending beginning in fiscal 1969, and the continuing efforts of the Bank and the borrowing countries to facilitate the disbursement process."

To finance its expanding operations, the Bank borrowed \$1,853 million in fiscal 1974. Of this, \$565 million was borrowed from petroleum-exporting countries—\$200 million from Iran; \$101 million from the Central Bank of Libya; \$76 million from the government of Abu Dhabi; \$23 million from a group of commercial banks in Venezuela; \$85 million from a public offering of dinar bonds in Kuwait; and \$80 million in two-year US dollar bonds placed with central banks and governmental agencies in 14 petroleum-exporting countries.

In fiscal 1973, oil-exporting countries accounted for only 13 per cent of the Bank's borrowings.

largest supplier

Japan remained the single largest supplier of long-term borrowed funds. During the year, the Bank borrowed the equivalent of \$461 million—or about 25 per cent of the total from that country. There were no long-term bond issues in the United States during the year.

As expected, the resources available to IDA, including those provided by the third Replenishment, were almost fully committed by June 30, 1974. Under the agreement on the Fourth Replenishment reached in Nairobi in September 1973, twenty-four contributing members of IDA, plus Switzerland, decided to take steps to increase IDA's resources through a Fourth Replenishment amounting to the equivalent of \$ 4,500 million for the fiscal years 1975 to 1977. It was understood, however, that no member would be committed to contribute until approval, where necessary, had been obtained from its legislature.

advance contributions

At the time the Fourth Replenishment agreement was reached, it was considered unlikely that the necessary legislative action would be completed by June 30, 1974. Accordingly, it was suggested that action be taken to provide resources for IDA meanwhile in the form of advance contributions.

By the end of the year, the Report says, "It was expected that (enough) resources would be provided to enable IDA's operations to continue without interruption for a substantial part of fiscal 1975".

The report stresses, nonetheless, that it is of the "greatest importance" that all governments press for early legislative approval of the full replenishment.

—International Bank for Reconstruction and Development

IFC investments exceed a billion US dollars

THIRTY two investments, in loan and equity, were made by the International Finance Corporation in fiscal 1974 for a total of \$203.4 million. This record figure exceeded the comparable figure for the previous year by \$56.7 million. It raised the cumulative total of the Corporation's commitments since it was established in 1956 to more than \$1 billion (\$1,049 million).

Concurrently with IFC other investors, local and foreign, invested \$466.9 million in the same projects. Taking account of \$104.4 million to be financed by cash generation the total cost of the 32 projects was estimated at \$774.7 million.

Sales by IFC of its own investments in fiscal 1974, by way of participations and from its portfolio amounted, to a record \$84.2 million, exceeding the previous year's figure, also a record, by \$19.2 million.

record investment

During the year IFC made first investments in the Dominican Republic, Israel and Jordan. Of the Corporation's total investments during the year, \$84.4 million was in support of steel manufacture in Brazil, Iran, the Philippines, Turkey and Yugoslavia; \$52.9 million for textile production in Brazil. Colombia, Indonesia, the Philippines and Turkey; \$25.4 million for cement production in Colombia, the Dominican Republic, Indonesia and Yugoslavia; and \$15 million for a nickel mine in Guatemala. Manufacturing enterprises in Indonesia, Jordan and Spain received a total of \$8 million; \$6 million was invested in machinery production in Brazil and \$4.2 million in chemical production in Israel and Tunisia. Pulp and paper manufacture in Kenya was supported with \$2,9 million; food and food processing in Nigeria, the Philippines and Senegal with \$1.4 million; and tourism in Mexico with \$1.2 million. Local development finance companies in Indonesia, Korea and Senegal received \$1.1 million; and a capital market project in Korea \$342,615.

Of the \$203.4 million committed by IFC during the year, \$131.7 million went to eight projects in Latin America and the Caribbean, \$39.3 million to five projects in Europe, \$18.6 million to ten projects in Asia, \$9.2 million to three projects in the Middle-East, and \$4 million to five projects in Africa.

Of the cumulative total of \$1,049.1 million invested by IFC since 1956, \$465 million (44.3 per cent) has gone to Latin America and the Caribbean, \$251.5 million (24 per cent) to Asia, \$173.6 million (16.5 per cent) to Europe, \$108 million (10.3 per cent) to Africa and \$50 million (4.8 per cent) to the Middle-East.

Other investors in enterprises assisted by IFC in fiscal 1974 included 57 business firms and government agencies and 59 financial institutions. Of these, 67 were in developing countries, which provided \$221.4 million, and 49 were in developed countries, which contributed \$232.5 million.

IFC's investments during the year were all illustrative of the Corporation's assistance to the private sector in the developing countries, in strengthening local ownership and in supporting joint ventures between local and foreign capital.

Of the projects supported by IFC during the year, 10 in Brazil, Colombia, Iran, Israel, Mexico, the Philippines, Tunisia, Turkey and Yugoslavia, were wholly locally-owned. Another 19 were joint ventures between investors in developing and developed countries.

joint ventures

There were also two joint ventures between investors in developing countries themselves, India and Indonesia in a project in Indonesia, and India and Nigeria in a project in Nigeria.

Of the total of \$1,049 million invested by IFC since 1956, \$684.4 million, or about 65 per cent, has been committed in the last five years. This has been the period during which Mr William S. Gaud, formerly Administrator of the US Agency for International Development, has been Executive Vice President of IFC. On his retirement on August 31 last, Mr Gaud was succeeded by Mr Ladislaus von Hoffmann, Vice President of the Corporation. Mr von Hoffmann, who is German, was himself succeeded as Vice President by Mr Moeen A. Qureshi, Economic Advisor to the Corporation since 1970, who comes from Pakistan.

II

The following are the salient points made in the Annual Survey of the international investment climate contained in the IFC Annual Report for 1974:

The world's financial markets witnessed booming activity through most of 1973. International investment and trade had to contend with a worldwide system of floating exchange rates and extremely volatile conditions in foreign exchange markets, but the pace of business and investment activity in both industrial and developing countries are strong.

flow of investment

The flow of investment funds to the developing countries in 1973 was aided by the relatively liquid state of international money and capital markets for the greater part of that year.

Preliminary data on international capital movements show that the total flow of resources to developing countries (excluding most Euro-currency credits) exceeded \$24 billion in 1973—approximately one-fourth higher in dollar terms than in the previous two years. According to OECD estimates, these transfers included some \$11 billion in private capital flows, of which \$5.9 billion represented direct foreign private investment (including investment in petroleum but excluding suppliers' credits) in developing countries.

There are no recent data on such direct foreign private investment excluding petroleum, but the indications are that the 1973 level did not differ significantly from the average over the past three-four years of around \$1.8-2 billion... There appears to have been considerable emphasis on heavy industry—particularly petrochemicals, cement, iron and steel, and fertilizers.... The emphasis on heavy industry, and the recent steep increase in equipment prices also contributed to larger individual investments during 1973.

A number of developing countries moved towards the establishment of facilities for local processing of raw materials in association with foreign partners. There was also a continued tendency on the part of certain industries in developed countries, such as textiles, to look for possibilities of further expansion and decentralized production through new investment in low-wage developing countries...There appeared to be somewhat greater readiness on the part of foreign investors to join with local enterprises in export-oriented investments... There were also many more reported cases during the past year of joint ventures and other forms of collaboration between private enterprises in different developing countries.

While there are important differences in the attitudes of individual countries towards foreign private investment, there appears to be a well-defined trend on the part of many governments to increase national control and participation in key sectors of the economy and to place increasing emphasis on significant local participation in foreign-owned enterprises...

As in the past, there were several cases during the preceding year in which governments in developing countries decided to participate in, or to take over, foreign-owned investments. There appears to be increasing awareness that such policies should be implemented in an equitable fashion so as not to impair the investment climate.

The financial climate has become more clouded under the combined impact of receding economic growth in the industrial world, the quickening pace of worldwide inflation and the dramatic and wide ranging effects of the increase in oil prices...

important shifts

Important shifts in the pattern of international capital flows are unavoidable as a result of these developments...The emerging pressures have particularly serious implications for the financial situation of those developing countries which are heavily dependent on both oil and food imports...

The situation calls for close cooperation between different segments of the internationl financial community. It also underlines the need to evolve, during the transitional period, financial policies and procedures which engender confidence in both potential investors and borrowers so that the orderly functioning of international financial markets is preserved and there is minimum disruption in the flow of international capital.

During most of 1973, developing country borrowers, especially those with abundant natural resources, were much sought after in Euro-markets. The number of such borrowers rose considerably during this period (and) the maturity period of loans lengthened...In all, 40 developing countries borrowed over \$9 billion equivalent in 1973 in the form of publicized loans; on a gross basis this was more than twice the 1972 level. Loans with a final maturity of 15 years...were reported in the case of official borrowers. Similarly, loans with a maturity of 7-10 years were reported to have been made to some established private companies in developing countries...Total Euro-borrowing by developing countries in 1973 is estimated very roughly to have been in the \$11-\$13 billion range.

stringent terms

During the first quarter of 1974, publicized borrowings by developing countries were still quite large—nearly \$3 billion, or approximately equal to the average amount borrowed in each of the final two quarters of 1973. However, the lending terms became gradually more stringent and the number of developing countries in the market decreased. Even in the case of official borrowers from developing countries, there were fewer loans with maturity periods going up to 15 years...The liquidity squeeze was much more noticeable in the case of loans to private borrowers from developing countries: it became harder for such enterprises to borrow for more than 5-7 years....These trends became even more pronounced during the second quarter of 1974.

With the very large resources that are likely to accrue to oil-producing countries, there is the prospect of a steady growth in the inflow of capital into Euro-markets provided Euro-institutions can offer, with security and efficiency, the financial and investment services that will be required.

Euro-markets are not likely to lack borrowers, from developing and developed countries. However, a major uncertainty now overhanging Euro-markets concerns the extent to which reliance will be placed on them for balance of payments recycling in addition to genuine investment financing. For the Euro-markets to perform their function of financial mediation efficiently, and in an orderly manner, it will be necessaay to devise ways of achieving some coordination of borrowing...with the inflow of capital into the market. In the absence of any overall surveillance and coordination, it could prove extremely difficult to prevent continuing instability in the functioning of Euro-markets. Developing country borrowers are likely to be amongst those most adversely affected by such instability...

The prospects of a massive increase in the flow of funds for investment and balance of payments purposes through Euro-markets have inevitably given rise to some concern about the financial strength and viability of Euro-market institutions...

The maintenance of confidence in Euro-market, and their evolution into a more orderly and truly international capital market will require concerted action in certain areas. These include the availability of reliable information on the market's operations and exposure, not only to achieve financial coordination, but also for purposes of day-to-day credit analysis and risk evaluation by the institutions operating in the market. Furthermore, in view of the growing number of institutions in the market, there may now be a need for some refinancing or "last resort" facilities which might be available to Euro-institutions in times of financial crisis. Finally, the formulation of some liquidity standards for Euro-market institutions may be expected to strengthen general confidence in the markets.

growing liquidity

IFC customarily obtains additional finance for the projects it supports through the sale of participations in its own loans. In this way the Corporation is able to fill a gap in the financing of a project while limiting its own exposure to an amount in keeping with the extent and use of its own resources...The growing liquidity squeeze during 1974 has led to increasing difficulties in IFC's syndication activity and the sale of participations.

Nevertheless, IFC has continued its efforts to organize investment financing in ways that meet the constraints of existing market conditions as well as the requirements of the borrowers. In some cases, for example, IFC has been able to secure additional financing at a floating interest rate while providing its own financing on a fixed interest rate basis, and on terms which make the total financial package match the borrowers' requirements.

Subject to conditions in the international money market, IFC is ready to continue to devise financing patterns which are in the best interests of the lending institutions, its borrowers and the developing countries.

—*International Finance Corporation*

MOVING FINGER

Mrs Gandhi has been able to take in most of the people most of the time. Nevertheless, it is surprising that the US Ambassador in India, Mr Daniel Patrick Moynihan, should have so readily swallowed hook, line, and sinker the story that the prime minister and her party are going in daily dread of a CIA threat to Indian democracy. It is true of course that the CIA has been one of the dirtiest instruments of international power politics in all history and it is true also that it has been playing with the lives of peoples and the fate of nations around the world. The complicity of this institutionalized embodiment of the Ugly American in the devilish skullduggery that has been going on in Chile is now being increasingly substantiated, involving in the process ever more deeply the Nixon administration (that was), inclusive of Dr Henry Kissinger (who, still, is).

Indeed, even the once golden reputation of the US Secretary of State as the knight in shining armour of the detente that has assured the world of peace in our time is being sadly besmirched. While reports from Washington indicate that he is being suspected in some quarters of having bank rolled or even masterminded the coup in Chile, I have heard local wags suggesting that, perhaps like Mr Guenther Guillaume (through whom Mr Willy Brandt came to grief), Dr Kissinger is also a communist super-spy, possibly with East German affiliations, who was planted at ex-President Nixon's elbow to subvert US foreign policy objectives and thereby jeopardize US security interests.

According to this coffee house gossip, on this reading of Dr Kissinger's probable role in Washington, it becomes extremely easy to understand why he was so keen on bringing about US *rapprochement* with China, what prompted him so gleefully to go out of his way to rouse suspicion in Japan as well as in the EEC about the new directions of US foreign policy and why he had been so persevering in promoting a global impression that, whether it was Taiwan, Bangladesh, Cyprus or even Israel, the United States had no interest in small or struggling countries except as pawns in the games he was constantly playing. If I am mentioning all this mad talk here even at the risk of having Dr S.D. Sharma believing or pretending to believe in the truth of all this, it is only because I would like to point out that people like Mr Moynihan could do real harm to this country if they take seriously the prime minister's attempt to whip up a scare about the risk of Indian democracy being subverted by CIA activities in this country.

It is well known that, for some time now, the prime minister, the president of her party and some of its other leading members have been trying to insinuate, both directly and indirectly, that foreign agencies and foreign money have been encouraging and assisting demonstrations and agitations against the central government or some of the state governments. Indeed, it has been alleged with varying degrees of effrontery or cowardice that Mr Jayaprakash Narayan's movement itself must be held to be suspect on this count. Mrs Gandhi of course has taken to identifying herself and her party with democracy and democratic institutions in this country and it has therefore been easy enough for them to suggest and keep on suggesting that any attempt by anybody anywhere to question her right or the right of her party to hold office in perpetuity, or even to doubt the wisdom of her economic or other policies, must be deemed as a sin committed against the Holy Ghost of Indian democracy.

Mr Moynihan after all has been long enough in this country and, it is to be hoped, he has also been close enough to what is happening here to appreciate that, if Mrs Gandhi's administration is being criticized, or there is a building up of resistance to the corrupt or inefficient politicians or administrations she is upholding and supporting, it is essentially because the economic problems and difficulties of the nation have become so grave that millions of men and women are beginning to lose confidence in the competence or even the good faith of the prime minister and her government. In the circumstances, any attempt anywhere to suggest that alleged CIA activities are what this country has to worry about is to do real harm to the cause of the Indian people who are attempting to struggle against evils purely home-made.

Mr Tul Mohan Ram, it appears, is not mere hearsay; he surfaced in New Delhi a few days ago as an irrefutable, flesh-and-blood fact of our public life. Naturally, journalists thronged to his press conference to catch a glimpse of the most sought-after (and, I may add, the most wanted) man of the last session of parliament. Mr Tul Mohan Ram's explanation for his deferred public appearance was simplicity itself. He had been marooned, he said, in his flood-stricken village in remote Bihar and had been cut off from all contacts with the outside world. This was how he happened to miss all the fun and frolic of the debates in the two houses. An act of god, if ever there was one.

Mr Tul Mohan Ram has confirmed that he signed the famous memorandum, but he claims that he did so without acquainting himself with its contents since a friend had asked for his signature. This tendency to oblige people should not of course be held against him. Like Abou Ben Adhem, Mr Tul Mohan Ram, apparently, would like to go down on the books of the recording angel as one who loves his fellow-men. Perhaps not all fellow-men? At least not at the present moment. For, there is Mr Yogendra Jha. Mr Tul Mohan Ram's love for his fellow-men had embraced Mr Jha too once upon a time, but it does so no longer. Nothing hurts a trusting soul so much as finding its trust misplaced.

Dr Raja Srivastava, a biologist working at the Dr Pearay Lal Hospital at Lucknow, recently received in London a grant of £13,000 from the Lord Dowding Fund for humane research. As the description of the Fund indicates, the grant is intended to promote medical research designed to avoid vivisection or the use otherwise of live animals for experiments in the laboratories. In his work at Lucknow Dr Srivastava is reported to use mostly tissue material obtained painlessly from people. Indeed, he is said to be contemptuous of the view that animals must necessarily be used for research in drugs or medicines. A report in *The Guardian* quotes him as follows:

"I remember talking to an American scientist who had done animal research into a form of leukaemia, only to discover the results were not applicable to human beings—that was 30 years' work."

BOOKS BRIEFLY

Reviewed by
Academicus

Evolution of standardization

Standardization—A New Discipline: Lal C. Verman; Affiliated East-West Press Pvt. Ltd, New Delhi; Pp 461; Price Rs 75.

History and Social Development Vol I : Elites in Modern India: B. M. Bhatia; Vikas Publishing House Pvt. Ltd; Pp 384; Price Rs 45.

Agricultural Administration and Institutions : Guy Hunter; Stanford University, USA; Pp. 231-251; Price not given.

A Diplomat Speaks : K.P.S. Menon; Allied Publishers; Pp 140; Price Rs 15.

Life and Culture of the Indian People—A Historical Survey : K. A. Nilakanta Sastri and G. Srinivasachari: Allied Publishers; Pp 284; Price Rs 30.

Problems of Unemployment in India : Edited by Mansur Hoda; Allied Publishers; Pp 89; Price Rs 25.

Standardization is progressively approaching the status of an independent discipline. Naturally *Standardization—A New Discipline*, which is the first of its kind on this vastly important subject, is extremely welcome. If anything the publication of a book of this kind was overdue.

Standardization is "the process of formulating and applying rules for an orderly approach to a specific activity for the benefit and with the cooperation of all concerned, and in particular for the promotion of optimum overall economy taking into due account functional conditions and safety requirements. "Some particular applications of the concept of standardization are units of measurement, terminology and symbolic representation, products and processes (i.e. definition and selection of characteristics of products, testing and measuring methods, specification of characteristics of production for defining their quality, regulation of variety and interchangeability, etc.).

wide coverage

It is obvious that standardization covers all aspects of economic activity of man such as engineering, industry, construction, agriculture, commerce and so on. The aims of standardization are to achieve maximum overall economy of (a) cost, (b) human effort and (c) conservation of essential materials and to ensure maximum convenience in use as standardization leads to simplification, rationalisation, interchangeability of parts and freezing of dimensions of components. Increased productivity, elimination of waste and reduction of inventories are the consequential benefits of standardization.

The author has traced the evolution of standardization movement from the beginning to the present day. Standardization in its broad sense has furnished "the base on which nature has created the universe." We find standardization in early pre-history in the form and shape of stone implements found in Europe, Africa and Asia. By the time the first World War broke out "standardization had been well recognised as an industrial process capable of ensuring productivity through interchangeability, not only within a given factory but also from one factory to another, and the importance of creating industry-wise standards and national standards slowly began to be realised."

20th century concept

International standardization movement began to develop early in the 20th century, when the electrical engineers and physicist began thinking of standardization. The second World War brought the urgency of national and international standardization even more pointedly to the forefront. Another factor which gave a spurt to the standardization movement during the post-war period was the establishment of the International Organization for Standardization (ISO) which has been making valuable contribution to the growth of world standards and the development of standardization as a discipline.

Dr Verman has done well to study the problems of standardization with reference to developing countries where it can play a very significant role. These countries suffer from all sorts of shortages and therefore standardization can help them to make the best use of available resources and push-up productivity. They are also fortunate in this respect because unlike western countries which had to learn standardization from a scratch, they have the experience of western countries at their disposal. Of course they will have to bring about certain adaptations to suit their conditions. Planning for standardization began in India in right earnest since 1951 and at present the Indian Standards Institute (ISI) has been playing a very useful role.

The author has analysed in detail various aspects of standardization such as systems of measurement, mathematical tools, implementation, labelling, consumer problems and so on. The chapter on economic effects of standardization (chapter 21) is especially significant. The author has made an attempt to analyse the effects of standardization on materials, wages and salaries, power, machine and tool wear, stocking, handling and transport, maintenance, depreciation, performance and other improvements. But the author has done well to warn about some of the evil effects of standardization. Beneficial effects of standardization can only be expected if the standardization process has been carried out in a rational manner and implemented correctly. Uncalled-for over-standardization, gross under-standardization and wrong application of standards may lead to negative effects on the economy. It must be realised that standards are always on trial, that standards breed product sameness which may result in loss of customer appeal and sales and that standardization curtails inventiveness. Provided steps are taken to guard against these evils, standardization can be very fruitful especially for developing countries.

The novelty and importance of the subject, the author's articulate faculty of exposition and his method of presentation make the reading of this book both instructive and interesting.

Role of the Elite

B. M. Bhatia, a distinguished social scientist, has in the first volume of his book *History and Social Development* made an attempt to analyse the role of elite

in modern Indian history. In view of our curiosity to know what forces have been shaping the course of Indian history, Bhatia's novel approach to modern Indian history is thought-provoking.

History has been defined as "the record of life of societies of men, of the changes which those societies have gone through, of the ideas which have determined the action of those societies and of the material conditions which have helped or hindered their development." Marx was the first social scientist to view history that way. But Marxian formulation of historical process and evolution however suffered from a serious defect. That defect according to Bhatia was his exclusive attention to economic factor to the neglect of all other forces and motives that goad men to action. Of the two basic human intincts identified by Hobbes in the 17th century—materialistic self-interest and love for power—the latter, according to the author, is more relevant to the study of society and history. As Hawley has pointed out, "Every social act is an exercise in power, every social relationship is power equation and every social group or system is an organisation of power. "The totality fundamentally resolves itself into power relationships. This means, as Bertrand Russell has pointed out, "the laws of social dynamics can only be stated in terms of power, not in terms of this or that form of power."

motive force

The author's thesis in this book is that history is made neither by the masses nor by working classes but by the elites who from time to time assert themselves. The motive force behind elite action is acquisition of power. The elite conflicts that give substance and shape to the course of history centre round acquisition and retention of power. According to Bhatia, Indian history of the British period of about 190 years is one long story of power struggle among various elite groups in India. This book contains an extremely elaborate exposition of the above central thesis.

The British conquest of India proved to be the principal catalyst of change in Indian history, the Indian society having practically remained stagnant till the British conquest. Among other factors accounting for social revolution in India in the 19th century, the first place must go to English education. It was, according to the author, the English educated classes most of the members of which had middle class origin, that led the way in the fields of social, political and economic reforms of Indian society. This class came to constitute the country's elite. It was this class that was primarily responsible for the social, political and commercial revolutions that India underwent from 1858 to 1947.

It must be noted that this new elite did not constitute a single entity nor was there the existence of class consciousness among its members who were drawn from varied sections of Indian society such as landed interests, traders, merchants, financiers and members of various professions like lawyers, civil servants, engineers, doctors and other intelligentia in the country. In other words the Indian social elite of the time was a political and not an economic class. The author is firmly of the view that with the elite of the country so constituted, the dialectics providing motion to Indian history are to be sought in the power conflicts of the elite rather an "in the system of production and the exploitation of one social class by the other."

competitors for power

It was this English educated elite who came to demand in course of time English political institutions for India such as political and economic independence, parliamentary system of democracy and so on. They became the competitors for power against the British ruling class. Thus at the centre of the stage of Indian history of the period lay the struggle for power between the British and the Indian elites. The English educated middle class was the product of the British rule and it was left to that very class to challenge and destroy the British rule. It was this elite class that established the Indian National Congress which pioneered and successfully led the Indian national struggle for independence. It must be noted that the annual resolutions at the sessions of the Indian National Congress on mass poverty, famines in the country, tariff and currency controversies were less of economic debates than political weapons employed to attack the British rule in India. By 1947 the Indian elite had wrested power from the British imperial masters and itself turned into the country's ruling elite.

Before the country achieved political independence, the Indian elite itself had split thereby starting new dialectics of power within the overall national struggle for independence. According to the author, 'the Hindu-Muslim question, in the final analysis, was nothing but the struggle between the elites of the two communities for power. The religious sentiments of the Muslim masses were aroused by the Muslim League to enlist their support for the Muslim elite's claim to a share in political power. Thus in the final analysis "both independence and partition of the country were the work of the Indian elite."

The conflict between the Brahmins and the non-Brahmins that developed in the Madras presidency during the inter-war period has also been interpreted by the author in terms of seeking of power by elites of the two communities. The non-Brahmin elite like its Muslim counterpart appealed to anti-Brahmin sentiments of the non-Brahmin castes for enlisting the mass support for its cause. The author has also explained the movement for the separation of Andhra region and the demand for separate Punjab state by the Akali Dal in terms of essentially elite conflict aimed at seeking power. All the communal parties and policies were largely a guise for elite's own struggle for power. The author has concluded that "Modern India is what its elites made it. Its history is, on the one hand, the history of intra-elite power conflicts and on the other, the role and response of India's modern elite to changing historical situations during the British rule."

It appears that the two-class model of Marx who attempted to interpret the course of history in terms of power struggle between the propertied and the propertyless classes does not seem to be applicable to India where the mass struggle in the true sense of the term has never taken place. Marx's neglect of the middle class and its influence on the evolution of history gives a distorted interpretation of the course of history. Bhatia's interpretation of the Indian history in terms of mutual power struggle among elites, though also one-sided like the Marxian interpretation gives a more satisfactory interpretation of the Indian history during the period of the British rule. Bhatia's approach would also seem to explain fairly satisfactorily the course of Indian history since independence. Possibly this is what Bhatia will try to explain in the second volume which is to be shortly published and which will be eagerly awaited by students of social sciences.

Farm Administration

The name of Guy Hunter is well-known to the readers of these columns. His writings on the administrative aspect of agricultural development in developing countries show penetrating insight into these problems.

The booklet *Agricultural Administration and Institutions* contains an article by Guy Hunter reprinted from Food Research Institute Studies in Agricultural Economics, Trade, and Development, Vol XII, No 3, 1973, published by Stanford University. It is worth pondering over what Guy Hunter has to say in this article.

The fact of demography, employment and poverty necessitate a policy which is directly designed to improve the production and incomes of vast number of small farmers in India and other Asian countries. Fortunately it is no longer acceptable to argue that small farmers are irredeemably obstinate, conservative and non-economic men. The main trouble, according to the author, is the weakness of administrative and institutional tools for implementing a policy of small farmer development.

local conditions

However in respect of small farmers in a country like India policy-makers face an extremely wide range of local conditions. This has two implications. Broad generalised agricultural policy will have extremely limited applicability and secondly if agricultural problems are entrusted to a number of agencies or departments, the problem of coordination assumes great importance and often defeats the final objective. If on the other hand only one agency is entrusted with all the aspects of agriculture, the efforts are likely to be dissipated producing hardly any impact on the country's agriculture.

On the basis of his analysis of some persistent administrative difficulties such as the bureaucratic system and the problem of coordination, bureaucracy and politics, the choice of technology and problems raised by extreme poverty of small farmers, Guy Hunter has suggested various measures to overcome these administrative and other difficulties which are at present hampering the agricultural development in countries such as India. The author's recommendations are worth considering.

According to the author, there is need for far more accurate knowledge of the rationale of existing farm systems, investment in physical infrastructure and personnel, adaptation of research to the real state of farming system and so on.

Secondly, there is need for delegation of local policy-making to a local level. It is impossible to use the knowledge of farm systems or to adapt to the needs of particular phase of growth unless this is done locally.

The third requirement is to cut off departmental hierarchies at the same level and substitute a field service wholly responsible to this level concerned not with partial interests but with development. Simplification of the development structure at field level may be critical to success.

Fourthly, the author wants that the administration aims at, from the whole complex of political and democratic possibilities, an emphasis of practical participation at the most direct and local level.

Fifthly, there should be deeper analysis of the probable results of using various possible commercial institutions closely related both to the phase of growth and to technical issues.

In the sixth place, the author is of the opinion that there should be a revision of pricing and fiscal systems affecting modern technological imports and inputs so that the technology in fact used corresponds far more accurately to the economic realities of a farming system.

modernisation of farming

Finally the author has opined that there is a range of human situations moving along a line from traditional society to a modernised agricultural economy, and there is a range of technical solutions which have to be fitted to this changing local scene, both as to costs and benefits and as to the availability of skills. There is a range of administrative methods to choose from and again these must be fitted to the attitudes and capacities of the farming community, to the quality of the surrounding economy and also to the capacities of the administrative authority. It must be understood that the process of economic transformation can be effected by a myriad of micro-economic changes and not by a generalised economic-policy aiming at such transformation.

This has been the gist of the analysis and recommendations of Guy Hunter who has been writing on modernising backward agricultural communities for quite some time. Indian experience after independence would seem to validate the approach and viewpoint of the author. The highly centralised agricultural administration at Delhi and state capitals and highly generalised agricultural policies are mainly responsible for the extremely slow progress which Indian agriculture has been making since independence. But any radical change is so difficult in backward countries and bureaucracy is so obstinate in holding on to its power that one wonders whether the radical reforms which are recommended by Guy Hunter will ever be put into practice in India.

Indo-Soviet Relations

A Diplomat Speaks is a collection of speeches by K. P. S. Menon addressed to various audiences during his stay in Moscow as India's ambassador to the Soviet Union. These speeches covering a wide range of topics were delivered on occasions such as opening of Indian art exhibition, commencement of Moscow-Delhi air service, anniversary of Nehru's visit, Tagore centenary celebration and so on. Most speeches are of only topical interest and yet it would be instructive to trace the broad trends underlying those speeches of our senior ambassador.

The period 1952-61 when K. P. S. Menon was in Moscow was exceptionally interesting and important. India had just become independent and other countries in Asia and Africa followed suit with bewildering rapidity. The 'Vasco Da Gama Era' was coming to an end. The second World War was over but cold war had supervened. The idea of one world had proved illusory. Instead two worlds had emerged, two politico-military blocs headed by the USA and the USSR, and a third world was emerging in Asia and Africa. The problem was: how would this new world adjust itself to the new situation? Would it be content only to be an appendage of one or the other of the two Leviathans? Or would it work out its own destiny?

formative period

In the history of Indo-Soviet relations also the fifties were a formative period. It was, as the author calls, 'a period of mutual discovery.' It was during this period that the first Indian cultural delegation went to the Soviet Union, the first cultural agreement between India and the USSR was signed, the Indian epics Ramayana and Mahabharat as also dramas of Kalidas and Tagore were staged in the Soviet Union and Gandhiji was acknowledged as a great liberator of humanity.

Also fifties were not just a period of discovery but they were also years of development. It was during this period that the first trade agreement between the two countries was signed; that the first metallurgical complex was established at Bhilai; that the first machine-making project was established at Ranchi (to be followed by a host of other such projects); and the first shipping line between the two countries was opened. Those were the days when India appeared to enjoy a prestige out of all proportion to her military strength in the halcyon days of Jawaharlal Nehru. This was the background against which these speeches were delivered by K. P. S. Menon and it is only against this background that they appear relevant and significant.

Only certain significant speeches can be referred to here for many are of extremely formal nature with hardly any worthwhile content. On the occasion of the anniversary of Nehru's visit, the ambassador admitted that in the past certain ideological distortions stood in the way of friendship between India and the Soviet Union; but he also pointed out that those obstacles were removed by decisions at the 20th Congress which recognised that there can be different varieties of socialism, that there can also be different roads to socialism, that violence is not absolutely essential for the transformation of society and that parliamentary institutions can be a means to the establishment of socialism.'

These decisions were extremely welcome to India which had then proclaimed its goal of socialistic pattern of society and resolved to establish it according to its genius, traditions and environment. Then there is reference to the Bandung spirit and (ironically) praise of Dr Soekarno (who subsequently was to side with Pakistan against India) and reference to the interest of the Soviet people in foreign classics and their successful attempt at turning Kalidasa's Shakuntala into a beautiful ballet running to crowded houses. The author's statement on the tenth anniversary of Indian independence that "we do not need a giant's strength because we have no giant enemies" bespeaks of our senior ambassador's ignorance of the Chinese intentions against which Patel had already warned.

diplomatic exercise

The author's reference to the Russian researches and insight of Soviet leaders leading to the correct understanding of Mahatma Gandhi may be a diplomatic exercise. If sincerely meant, it only shows the naivety of the author for none knows when Gandhiji will again be dubbed as an agent of British imperialism and buorgeois leader! Also the author's rejoicings on the ground that all the past misunderstandings between the Soviet Union and India have been cleared might be more of diplomatic language than statement of facts and realities. The greetings tendered to His Majesty on the occasion of the visit to Moscow of the Emperor of Ethiopia appear a little paradoxical now that he is deposed by his own people! And again Menon's reference that the Soviet Union has taught him that not only individuals but nations with different background can co-exist happily together has to be taken with a pinch of salt and reservation. The eternal truth that in the international world there are no eternal friendships but that only common interests bring nations together and when those common interests vanish, former friends can again become deadly enemies must never be lost sight of. The history of Sino-Soviet relations should serve as an object lesson to us.

A diplomat must keep his eyes open and his mouth shut. Reticence is an essential virtue in a diplomat. And yet a diplomat has to speak often on various occasions, formal and informal. Fortunately K. P. S. Menon's speeches are brief and mostly formal. They therefore cannot be a source of profound knowledge about the Soviet Union and developments there. The speeches are interspersed with humour which is typical of the author. The speeches are enjoyable and should be taken in a lighter vein. In later years K. P. S. Menon appears to have become a lover of the Soviet Union and all things Russian. This has naturally resulted in some loss of ex-diplomat's discerning powers often reducing him to the rank of a propagandist on Russian behalf.

Indian Culture

Life and Culture of the Indian People—A Historical Survey was first published in 1966 under the title *Indian Historical Survey*. It has been recast and up-dated in the present revised and enlarged form.

The book presents a panoramic survey of the march of events in the Indian subcontinent covering the Indo-Aryan, the Indo-Islamic and the Indo-European periods as also during the post-independence period. The authors have described fully the rich and variegated life of the Indian people through ages, the numerous waves of invasion and intermingling of races which subsequently resulted in a unique cast-ridden social system and a typical illusive approach to the world and world events. All these perplexities and paradoxes are described in detail in the first five chapters.

The authors have then described the emergence of modern India against the background of the rising tide of nationalism and struggle for independence. The process culminated in the attainment of political freedom and the partition of the country followed by reorganisation and integration of the princely states. In subsequent chapters the authors have described the making of the Indian constitution and the principles underlying the domestic and foreign policy evolved and followed by India. This is followed by the analysis of the new experiments in economic and social fields which have attracted the attention of the world and may serve as a model for other Asian and African developing countries. In the concluding chapter the authors have analysed the Indo-Pakistan conflicts and the recent geopolitical trends. The appendices contain valuable material on states and union territories, various constitutional amendments, Indo-Soviet treaty and the Simla agreement.

The two authors are eminent historians with deep knowledge of the currents and cross currents of Indian history. One is therefore extremely disappointed that they have written such an uncritical account of the Indian developments since the dawn of history to the present day. There are so many critical issues in Indian history like the arrival of foreigners such as the Mohammedans and the Europeans, their impact on Indian culture, non-assimilation of the Muslims with the mainstream of Indian life, withdrawal of the British power from India, partition of the country, adoption of the parliamentary system of democracy and of non-alignment policy and so on. Each of these issues is likely to invite controversy thus requiring critical analysis and assessment. Unfortunately the authors have evaded all such critical analysis and evaluation and have just recorded facts and events as they occured. The reading of this book may give a certain amount of knowledge regarding facts but it will certainly not give readers any insight into Indian history. The title to the first edition of the book was more appropriate and one fails to understand why it was replaced by the present one which is definitely misleading.

Problem of Unemployment

No problem in India is so serious as the problem of unemployment and yet none has received such superficial and scant attention as this problem. It must be realised fully that unless a satisfactory solution is found, the problem of employment would not only undermine peoples' faith in economic planning but would also undermine the foundations of democracy in the country.

Problems of Unemployment in India is easily one of the finest and most penetrating books on the subject that takes us to the very roots of the problem and recommends policies which are eminently suitable. The present volume is a summary of a conference which the Indian Development Group in London organised on the subject of unemployment in India. The participants included such eminent thinkers as Prof. Tinbergen and Dr. E. F. Schumacher and discussions at the conference covered various aspects of the unemployment problem in India such as the role of physical and human capital, trade and tariff policies (including import substitution and licensing policies), educational background and attitudes of people, sharp increase in population, choice of technology, institution building, industrial location policies, the role of public works programme and great regional variations in the country.

The articles by Prof. Tingergen, V.S. Mathur and others make valuable contribution to this complex subject. And yet the article by Schumacher is the most original and thought-provoking. Since Schumacher's article includes practically everything worthwhile said by other authors in this book, it would be advantageous to know the views of Schumacher in regard to the problem of unemployment in India.

According to Schumacher there are four essential conditions for getting more work done. First, there must be motivation; second, there must be some knowledge or technical know-how with which a person can work; third, there must be some capital to work with; and fourth, there must be an outlet, that is to say, after something has been produced, there must be some one who is prepared to buy it.

As regards the first, i. e. motives and motivation to work, the author maintains that he has very little to say on that point. If there are people who do not wish to better themselves, leave them alone. There are enough people who wish to better themselves.

fundamental question

The author has many worthwhile things to say on the second aspect, namely education or technical know-how. If people want to better their lot, who is going to show them the way, for if they knew how to do a thing already, they would already be doing it and not remain idle and unemployed. This raises a fundamental question. What is education and what is education for? Some one has worked out that it takes 30 peasants to keep one student at a university. A five-year course at the university by a single student would cost 150 peasant-work-years. Why do it? Who has the right to appropriate 150 years of peasant work? What do these peasants get back when the student gets his university degree? Is education to be conceived as a passport to privileges? Or is education something which people take upon themselves like a monastic vow? Should not education take me back to my people who have paid for my education by 150 years of their work? Having consumed their work, should I not feel in honour bound to return something to them? This implies reconstruction of the entire system of education in the country to enable the educated people to contribute something to satisfy the needs of the masses instead of acquiring the type of education which sets them apart from the masses and helps them preserve and enjoy the privileges. This problem will have to be solved at the political level.

As regards the third, namely capital, the author has some very significant and unconventional things to say. The biggest single collective decision that India will have to take is the choice of technology. Are you going to have a few jobs at a very high level of investment per head or many jobs at a relatively low level of investment per head? It is strange that the question how much we can afford for each work-place when you need millions of them is hardly ever raised. At the level of technology which India is trying to adopt often by importing technical know-how and capital equipment, it is impossible to attain either full employment or economic independence.

The choice of technology is the most important choice for India. It is of pivotal importance. "The problem of unemployment in poor sections is solvable only if one achieves what one might call agro-industrial structure which enables the people in rural areas to use their labour power for providing most of their basic requirements themselves." Simple capital equipment which Indian labour can produce without any assistance from foreign technical know-how or capital equipment or imported raw materials can help build rural roads, houses, tanks and wells and various other agricultural assets which can push up agricultural output. Man has been producing basic requirements

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of life for quite long without the use of cement, steel and electricity!

As regards markets also the author has some original things to say. If the above line of argument in regard to capital needed by developing countries such as India is followed, one can at once see the absurdity of the view that unless developing countries export more and more, they cannot develop. The author has shown how by putting new purchasing power into the hands of the rural community through massive public works programme financed from outside and also by producing supplementary and complementary goods and services, it is possible to create the necessary markets. It is misleading to say that export markets are specially important for development. "After all, for mankind as a whole there are no exports. We did not start development by obtaining foreign exchange from Mars or from the moon. Mankind is a closed society and India is big enough to be a relatively closed society in that sense."

There is splendid model-building by clever men at the Planning Commission. They have a certain fixation in mind that without cement, electricity and steel nothing or not much can be done so also without the latest technique. Schumacher condemns this attitude as 'a sort of degeneracy of the intellect'. "I should like to remind you" he says, "that Taj Mahal was built without electricity, cement or steel and that all the cathedrals of Europe were built without them."

The greatest deprivation any man can suffer is to have no chance of looking after himself and making a livelihood. That means if the problem of unemployment is not attended to with all the seriousness that it deserves instead of dealing with the problem with an occasional crash programme, the whole thing is bound to explode sooner or later. Unfortunately the whole thinking of the Planning Commission on this subject is so woolly headed all along that the problem is becoming more and more acute. Conventional methods having failed, some bold and unconventional approach is absolutely necessary to solve the problem of unemployment in India. This brief article of about 15 pages by Schumacher possibly contains more sense than all the five-year Plan drafts and pronouncements by ministers.

Books received

Everyman's Guide to Import Control including the Policy for Registered Exporters: S.P. Chablani; Lalvani Publishing House, 210 D.N. Road, Bombay-400001; Pp. 203+xix; Price Rs 20.

Central Banks and Treasuries: Bani Majumdar; Vora and Co. Publishers Pvt. Ltd., 3 Round Building, Kalbadevi Road, Bombay-400002; Pp 160; Price Rs 25.

The Sources of Economic Growth in India: Bakul H. Dholakia; Good Companions, Publishers, Baroda; Pp 267; Price Rs 50.

Liberty and the Rule of Law: K. Subba Rao, K.S. Hegde, K. Santhanam and Others; Published by T. Sadasivam for Bharathan Publications Pvt. Ltd, Kalki Building, Chetput, Madras-600031; Pp 93; Price Rs 2.50.

Higher Education in India: Dr C.D. Deshmukh, K.R. Srinivasa Iyengar, K. Santhanam and Others; Published by T. Sadasivam for Bharathan Publications Pvt Ltd; Pp 104; Price Rs 2.50.

How to Get to the Top Without Ulcers, Tranquillisers or Heart Attacks: C. Northcote Parkinson and M.K. Rustomji; The Macmillan Company of India Ltd., 2/10, 4252, Ansari Road, Daryaganj, Delhi-110006; Pp 143.

Information Sources on Industrial Quality Control: Published by Association of Indian Engineering Industry, India Exchange, Calcutta-700001; Pp 61.

Sources of Metal Transforming Technologies: Published by Association of Indian Engineering Industry, India Exchange, Calcutta-700001; Pp 57.

Multi-purpose Cooperative Societies in South-East Asia: J.M. Rana; International Cooperative Alliance, 43 Friends Colony, New Delhi-110014; Pp 143; Price 20.00.

Anatomy of Inflation: D.H. Pai Panandiker; Centre for Monetary Research, W2, Green Park, New Delhi-110016, Pp 111; Price Rs 15.

Changes in the Per Capita Income and the Per Capita Availability of Essential Commodities in India Since 1931: S.M. Kansal; Economic and Scientific Research Foundation, Sapru House, New Delhi-110001; Pp 46; Price Rs 12.

Inflation in India: Edited by S.L.N. Simha; Published by Vora and Co. Publishers Private Ltd., 3 Round Building, Bombay-400002 on behalf of Institute for Financial Management and Research, Madras—34; Pp 380; Price Rs 48.

Economic and Employment Potential of Archaeological Monuments in India: Rajesh K. Agarwal and Sudesh Nangia; Published by Asia Publishing House, Bombay for the Economic Research Division, Birla Institute of Scientific Research, 13 Ring Road, Lajpatnagar-4, New Delhi; Pp 78; Price Rs 20.

Productivity Trends in Iron and Steel Industry in India Published by National Productivity Council, 38, Golf Links, New Delhi-110003; Pp 76; Price Rs. 20.

Karunanidhi Man of Destiny: S. Swaminathan; Affiliated East-West Press Pvt. Ltd., 9, Nizamuddin East, New Delhi-110013; Pp 89; Price Rs 25.

Role of Development Banks in a Planned Economy: Prabhu N. Singh; Vikas Publishing House Pvt. Ltd., 5 Daryaganj, Ansari Road, Delhi-110006; Pp 161; Price Rs 27.50.

Price Behaviour in India: 1948-49 to 1965-66 (A Comparative Study of Three Macro approaches): M.A. Sreenivas; Published by the Author, 22-C Nandidurg Road, Jayamahal Extension, Bangalore Sole Distributors: Vora & Co. Publishers Pvt. Ltd; 3 Round Building Bombay-400002; Pp 186; Price Rs 2[illegible]

TRADE WINDS

Indo-Soviet Trade

INDO-SOVIET trade for 1974 will run at the level of Rs 650 crores, according to estimates of the Working Group on Trade of the Joint Commission on Economic Cooperation recently in session at Moscow. India will have a favourable balance of about Rs 90 crores. The estimates take into account the Soviet assurance that deliveries of Soviet export items like fertilisers and kerosene will be completed before the end of the year. A contributing factor to the successful fulfilment of commitments for 1974 was advance contracting. On the basis of this experience it was felt contracting for 1975 should start early so that deliveries become effective from January.

The general view of the Working Group was that the Trade and Payments Agreement, which would expire in December 1975, provided a satisfactory framework for successful conduct of trade and, therefore, should be extended for another five-year period ending 1980.

The Group agreed that the first round of negotiations for 1975 protocol should be held in Moscow in the middle of next month followed by a second round in December in Delhi where the protocol might be signed. On the long-term agreement for 1976-80 preliminary discussions should start at the same time as for next year's protocol and conclude as early as possible in 1975. The Group called for an early meeting of specialists to decide upon the programme of supply of ships from the Soviet Union during 1976-80.

The Group identified areas of trade exchange in the field of electronics—India being interested in import of computers, computer peripherals and electronic components and the Soviet Union in import of computer software. Trade in these items would be augmented by the conclusion of agreement on cooperation between the two countries in the field of electronics.

Ordinance to Detain Smugglers

President Fakhruddin Ali Ahmed recently promulgated an ordinance to enable the detention of smugglers under the Maintenance of Internal Security Act.

The ordinance will be known as Maintenance of Internal Security (Amendment) Ordinance, 1974. So far the offence of smuggling was not covered by the MISA. There had been a strong demand that MISA be made applicapable to smuggling in the same manner as it was to hoarding and black-marketing. With this ordinance the government would have the power to detain for one year any person indulging in smuggling, abetting smuggling or dealing in smuggled goods. This power would cover foreigners also committing this offence.

Oil Prices

The prices of petrol, kerosene, diesel and furnance oil have recently been raised by five to six paise a litre. This has been done to "partly compensate" the oil refineries who have been incurring losses on account of the high price of imported crude oil. The price of cooking gas has also been increased by Rs 1.09 for a 15 kilo cylinder. The revised prices for a litre with old prices in brackets are: motor spirit Rs 3.27 (3.21); superior kerosene Rs 1.07 (1.02); high speed diesel oil Rs 1.11 (1.05); light diesel oil Rs 1.06 (1.01); and liquid petroleum gas for a 15 kg cylinder Rs 27.36 (26.27).

The announcement by the ministry of Petroleum and Chemicals does not indicate the yield likely to accrue from the revised prices. The ministry stated that the oil companies have been suffering a loss of Rs 12.3 crores every month since March last because they had been barred from raising the prices of petroleum products. The new prices absorb the marginal increase in petroleum product prices in some parts of the country owing to the revised railway freight rates.

The new price hike will not apply to fuel oil, high speed diesel oil and light diesel oil used by coastal and international shipping lines. Apparently, the government is keen to avoid annoying the shipping lines and possible decline in port traffic, especially of foreign vessels.

Sugar Export

The sugar industry has made an offer to State Trading Corporation (STC) to sell 110,000 tonnes of sugar from its free sugar quota at Rs 3,400 a tonne for facilitating sugar exports. The STC, however, has turned down the offer as it could not straightaway accept it without going through the formalities of inviting tenders as laid down in the rules. The STC has, therefore, invited tenders from sugar manufacturers. Tenders closed on September 24. The State Trading Corporation, which had been exporting levy sugar allotted by the Agriculture ministry till now, had to go in for tenders to meet its export target of 500,000 tonnes. It has already entered into contracts with various parties for export of about Rs 300 crores worth of sugar.

Mr Pradeep Narang, a spokesman of the Indian Sugar Mills Association (ISMA), told newsmen that the association had made the offer to sell sugar at Rs 3.40 a kilo to help the government's export efforts. The sugar industry could get a better price if it sold the free sugar in the Indian market. He said if tenders were invited, it would have the effect of escalating the market price of free sale sugar. The STC, he said, could get substantial profits if the association's offer was accepted. By inviting tenders, the STC could get sugar only at higher prices then offered by the association. The STC sources, however, refute the argument of the association that the price of Rs 3.40 a kilo was a concessional one. Though they agreed that the STC could still make a profit at this price because of high international price of sugar which is above Rs 6 a kilo.

National Income

The per capita national income, at constant (1960-61) prices, has gone up marginally during the financial year ended March 1974, after successive falls in the previous two years. This is indicated in a study of the estimates of national product, savings and capital formation based on a white paper brought out by the Central Statistical Organisation (CSO). The domestic product (national income) at constant (1960-61) prices would have gone up in 1973-74 by less than four per cent over the CSO's quick estimate of Rs 19,273 crores for 1972-73. This assumption is on the basis of the indices that are available so far relating to agricultural and industrial production trends last year.

The per capita national income at 1960-61 prices was Rs 337.5 in 1972-73 according to CSO's quick estimates. At current prices, the per capita national income is placed at Rs 687.6 in that year, showing an increase of 6.5 per cent over 1971-72, where as at constant prices there was actually a decline of 1.8 per cent in that year.

Problems of Aluminium Industry

The aluminium industry had run into "avoidable distress" and the remedy, sim-

ple and easy, was in the hands of the government, according to Mr D. P. Mandelia, Special Adviser, Hindustan Aluminium Corporation. The distress of the industry stemmed mainly from the factors: power-starvation and unreasonable and uneconomic level of controlled prices, he said. If the present installed capacity of power generation and its distribution could be managed even at the standard level of efficiency, the needs of the agricultral and the industrial sectors could be fully met even today, he stressed.

Mr Mandelia was addressing a meeting organised by the Bombay Shareholders' Association to focus attention of the people and the government on the problem facing the aluminium industry. Mr Mandelia explained that while the thermal power plants should work at more than 75 per cent generation-level, most of the stations in the country were returning a figure of less than 40 per cent. The thermal plant of the Hindustan Aluminium Corporation (HINDALCO) was generating nearly 82 per cent of the installed capacity.

He revealed that at present 41 per cent (more than 85,000 tonnes) of the installed capacity of the industry was idle because of power shortage. He added that after a long wait, the price of aluminium was revised by the government by Rs 1,090 per tonne in May last against an increase of Rs 2,160 per tonne in the cost of production. The price of imported ingots was Rs 13,478 and that of the indigenous ingots Rs 7,112 per tonne. He also stated that aluminium was selling at prices much higher than the controlled rates. The losers were the industry and the government which was not getting taxes on the "additional charges." The financiers were getting poor returns on their investments.

Mini Steel Plants

The union minister for Steel, Mr K. D. Malaviya, pleaded recently for establishing 1,000 mini steel plants within the next 25 years. Mr Malaviya said that he was aware of the present production constraints of the mini steel plants—the shortage of power and steel scrap. But he was confident that the shortages would not last beyond three to four years. The big steel plants, he said, needed huge capital outlay—Rs 1,500 crores to Rs 2,000 crores for one plant. With the present shortage of capital, the government could not afford to invest such a large amount on one single project. These plants also require long gestation periods which only generated further inflationary pressures.

Loan for Indian Airlines

Mr P. C. Lal, Chairman of Indian Airlines Corporation, concluded recently two loan agreements designed to help finance purchase of three new Boeings 737. The acquisition of the new aircraft, first of which is due to be delivered by the end of September, 1974, would enable the IA to start several additional flights on trunk routes and revive some services suspended owing to paucity of carrying capacity. The three Boeings are in addition to the one already purchased to replace the aircraft lost in a crash last year. Mr Lal said the last of the new aircraft should be delivered by November raising the IA jet fleet to ten. Among the new services under contemplation he mentioned an additional daily flight between Delhi and Calcutta and one between Bombay and Calcutta. A service would be started between Bombay and Trivandrum via Goa and another would link Delhi and Kathmandu.

Indian Council of Arbitration

Presiding over the annual meeting of the Indian Council of Arbitration, Mr K. K. Birla stated that trade and industry prefer arbitration to litigation in courts because of two evident advantages—expeditiousness and its comparatively less expensive character. Mr Birla referred to complaints by businessmen from developing countries that arbitration regarding international disputs was mostly held in advanced countries though the facts and circumstances of the case warranted arbitration being more conveniently held in developing countries. The parties from the developing world had difficulties in securing adequate foreign exchange for putting forward their defence in foreign countries. He suggested that guidelines should be framed for deciding the venue of arbitration.

He also favoured the practice of giving reasons for the award though it was not obligatory at present. He pointed out that in common law countries such as the UK and India, the general trend of opinion was in favour of giving reasons. This was because reasoned awards would provide healthy precedents and useful principles for the benefit of the commercial community in arranging and entering into agreements as well as for arbitrators to decide future disputes under similar circumstances. Mr Birla disclosed that the Indian Council would be hosting the fifth International Arbitration Congress in New Delhi in January, 1975.

Marketing Management

In recent years, rapid technological advances have generally underscored the importance of the marketing function in the management of business. Revolving around the wants and wishes of the consumer, in Indian context—of present day economy of shortages—the marketing concept does not lose any of its significance. In advanced countries, emergence of self service stores and cafeterias, super markets, beauty parlours and above all, television have brought about revolutionary changes in consumer's life style, which a marketing man would overlook at his peril, says Mr Parks Chrestman, Managing Director, Goodyear, India.

Inaugurating a marketing management course at Agra, he stressed the importance of applying scientific marketing management principles to the Indian economy. This, he added, represents a limited consumer market and offers constraints of limited raw material availability and power paucity both of which restrict the entrepreneur's freedom to develop and produce goods. However, an ingenious marketing man utilizes scientific management know-how to purchase raw materials with skill, produce, distribute and service products that are designed to meet costomer needs and choices at fair prices. Comparing marketing in a shortage economy to tight rope walking, Mr Chrestman commended use of all the techniques pertaining to a competitive market, but tempered with balanced discretion to keep the dealers and consumers happy within the limits of product availability.

Pacific 21

This country has been invited to participate in Pacific 21, a Pacific nations exhibition, festival and conference celebrating the United States Bicentennial. The three-month programme emphasizing the future of the Pacific Basin in the 21st Century will open in Los Angeles, California in 1975.

Opening on June 21, 1975 with formal dedication on July 4, Pacific 21 will continue until September 21, 1975. It will present an international fair to be staged in Los Angeles' unique Century City complex. Pacific nations have been asked to celebrate the bicentennial with a demonstration of their relationships with the United States—past, present and future. Thirty-five Pacific basin countries, four states and several territories and possessions have been invited. Four countries—Chile, Taiwan Malaysia and Korea—have already reserved space or indicated they will build exhibits and bring entertainment to the event. More than a dozen others who have expressed strong interset in participating, include Canada, Colombia, Hong Kong, Japan, New Zealand, Singapore, Thailand and the USSR. Others, including Australia, Costa Rica, Fiji, New Caledonia, Peru, Sri Lanka and Tahiti are actively considering participation.

Mexico Ratifies Tariff Preferences

Mexico has ratified the Protocol for exchange of tariff preferences. This has come into effect from August 29, 1974. The offer list of Maxico includes steel sleepers, rail for railways, handtools, steam turbines, hydraulic turbines, gas turbines and weaving and knitting machines. The preferences offered on these items vary from 25 to 50 per cent of their standard rates of duty. In February, 1972, 16 developing countries, including India, had signed a protocol under the aegis of GATT providing for exchange of tariff preferences among themselves on the basis of agreed lists of items. The Arrangement came into force in February, 1973, when half of the signatory countries ratified the protocol. Of the 16 signitories, 11 countries had ratified the protocol till May, 1974. These include, among others, Brazil, Chile, Egypt, India, Republic of Korea, Spain, Tunisia, Turkey and Yugoslavia. The tariff preferences offered by these developing countries vary from five to 50 per cent on their standard rates of duty. The preferences include many items of export interest to India such as shellac, guar gum, marine products, castor oil, biscuits and confectionery, carpets, cotton yarn, perfumes and cosmetics, sport goods antibiotics, medicaments paints and varnishes, motor tyres and tubes, agricultural implements, iron and steel, aluminium and copper items, rails, cutlery, inter-changeable tools, lathes, boilers, electric generators, electric lamps, refrigerators and telephonic and telegraphic apparatus. India also grants preferences on some 27 items under the protocol.

NSIC Lending Rates

The National Small Industries' Corporation has increased its lending rates by two per cent, for supply of machines on hire-purchase. The interest rate for technocrats and units located in declared backward areas will now be one per cent and for others it would be 13-1/2 per cent. The NSIC will, however, continue to allow a rebate of two per cent in case of hire-purchase instalment is paid before the due date.

Names in the News

Mr Bhogilal (Manubhai) N. Kothary and Mr Brijmohan Khanna were unanimously elected as Chairman and Vice-Chairman respectively at the annual general meeting of the Silk & Rayon Textiles Export Promotion Council held recently. At the above meeting the following were also elected as members of the Committee of Administration. Messers J .H. Manglani, A. S. Kasliwal, V. P. Patel and K.R. Mehra.

COMPANY AFFAIRS

Mild Recovery

THE SHARE market, which has suffered most probably the steepest fall in the past two-and-a-half months taking the all-index share price index fairly close to its 1973 low, staged a mild but noteworthy rally last week with prices registering a modest all-round rise. The sentiment was aided by the cheerful reports that the government would take a liberal attitude towards regularising the capacities of industrial units which had effected expansions without prior sanction of the government. In the context of prevailing shortages of a number of commodities and the sluggish economic growth, this decision was interpreted in market circles as a realistic change in the government's economic thinking. The operators also welcomed the agreement signed recently with Moscow to raise the capacities in the core sectors of the economy. The possibility of granting some concessions to the exporting units also enlivened the market sentiment.

In the Bombay Stock Exchange, Century rose at the week-end to Rs 468 from the previous week's closing of Rs 459.50, Gujarat Fertiliser to Rs 442 from Rs 440, Century Enka to Rs 430, from Rs 405 and Telco to Rs 207.50 from Rs 201.50. The Calcutta Stock Exchange was slightly in a better shape during the week under review. Caution continued to be the keynote of trading followed by profit-taking at every bulge. The immediate prospect of return by way of dividend being bleak as a result of dividend restrictions operators were reluctant to enter in a big way. Investors were completely absent from the market.

The slight recovery was attributed to markets oversold position. After opening on an easy note, Indian Iron improved somewhat to close at about Rs 5.50. Guest Keen Williams was barely maintained while Texmaco and Indian Aluminium were fairly steady. In the cash section activity was extremely limited with selected shares gaining small ground. There was a mild improvement in trading on the Madras Stock Exchange during the week. The absence of much selling pressure and the anxiety of some professionals to buy at lower levels from the short-term view also contributed to the improved performance. There were also indications of prices of selected shares stabilising at lower levels.

India Pistons

India Pistons Limited, one of the leading and well-known automobile ancillary units in the country, is currently celebrating its silver jubilee. It was formed in collaboration with the Associated Engineering Group of the UK, one of of the largest light engineering concerns in the world. Over the years India Pistons have maintained its magnificent record of a steady growth rate of 20 per cent per annum as its lead in the auto-ancillary field. The same foresight that helped the company to become the pioneer manufacturers of piston assemblies in the country has enabled it to be in the vanguard of the industry by undertaking two major expansions to increase the company's output first by 100 per cent and then by another 300 per cent. Today the company meets 60 per cent of the country's original equipment and 50 per cent of the replacement requirements. The MRTP had just cleared its scheme for further substantial expansion of capacity. This Rs 6.5-crore expansion scheme when completed would raise production of pistons to 24 lakhs from the present level of 15 lakhs while the output of piston rings would be doubled to 180 lakhs. Production of gudgeon pins would also be stepped up by 13.5 lakhs to 30 lakhs. The turnover which is at Rs 8 crores at preent would touch Rs 16 crores when the expanded capacity is in full operation. Its record in the field of exports is equally commendable. Its total exports have crossed the Rs 2-crore mark and intensive efforts are being made to increase the annual level of exports to Rs 1.5 crores within the next five to seven years. The company also had the foresight to establish a nucleus of an R & D effort as early as in 1966. This proud record of India Pistons in the fields of manufacturing, R &D, machine tool development and service has enabled it to sponsor a joint venture project in Malaysia for the manufacture of these vital automobile ancillaries with indigenous know-how and technology. It is gratifying to note that Malaysia Pistons Sdn. Bhd. had gone into commercial production within a record time and its products are already in the market.

Jay Engineering

The demand for the products of Jay Engineering Works Ltd has been affected by the inflationary situation in the country since sewing machines and fans tend to have lower priority when the domestic budget is under pressure of high prices for the essentials. Consequently the revenue from sales, including other income was lower at Rs 17.75 crores during the year ended March 31, 1974 as compared to Rs 20.14 crores in 1972-73. Production of sewing machines during the year was affected considerably due to a near six-month long strike at the Calcutta factory. As a result the output of sewing machines was much less during the year under review as compared to the preceding year. The economics of this unit has however started responding somewhat to profit improvement measures and if its operations continue unhindered, the unit might show improved results in course of time.

Production of fans at the Calcutta factory too was lower on account of the strike referred to above. Production at Hyderabad and Agra factories was higher than last year. The Sri Lanka affiliate continued to make satisfactory progress in spite of foreign exchange stringency in that country. The working of the company during the year has resulted in a net profit of Rs 16.10 lakhs as compared to Rs 11.27 lakhs in 1972-73. The net profit has been arrived at after providing Rs 55.33 lakhs to depreciation reserve, Rs 9.00 lakhs to development rebate reserve and Rs 11.40 lakhs to taxation reserve as against Rs 40.75 lakhs, Rs 3.50 lakhs and Rs 34.30 lakhs provided respectively in 1972-73. Keeping in view the limits prescribed by the dividend ordinance the directors have recommended dividend only on preference shares at 10 per cent. This will absorb Rs 5 lakhs and will be paid out of the general reserve.

Indian Cable

Despite many constraints and unprecedented difficulties Indian Cable Company's gross sales during the year ended March 31, 1974 at Rs 25.39 crores were marginally lower than the record figure of Rs 25.73 crores attained in the preceding year. But the pretax profit was disproportionately low at Rs 153.37 lakhs as compared to Rs 216.31 lakhs in 1972-73. The adverse effect of power shortages on production, relentless escalation in operating costs as a result of inflation and the runaway prices of raw materials causing lower returns on orders booked earlier, were by and large the major contributory factors responsible for the setback in profit. Notwithstanding these strains and handicaps, the company continued to give greater and closer attention to increasing its operational efficiency and to developing more and more sophisticated types of cables. The company continued to gain ground in the export field and obtained orders for the first time from Poland and Hongkong. Exports for 1973-74 at Rs 177.85 lakhs were Rs 11.76 lakhs more than 1972-73. The current year's exports are running at an even higher rate with orders flowing from Kuwait, Hong Kong, Sarawak and the USSR.

The company has earned during the year a pre-tax profit of Rs 153.37 lakhs as compared to Rs 216.31 lakhs in 1972-73. After providing Rs 86.00 lakhs for taxation, the net profit amounted to Rs 67.37 lakhs as compared to Rs 88.51 lakhs in the previous year. After adding Rs 7.79 lakhs being the provision for taxation no longer required, the profit available for appropriations amounted to Rs 75.16 lakhs as against Rs 93.55 lakhs in the previous year. Out of this, a sum of Rs 6.32 lakhs was transferred to development rebate reserve, Rs 3.00 lakhs to debenture redemption reserve and Rs 65.84 lakhs to general reserve as against Rs 3.92 lakhs, Rs 3.00 lakhs and Rs 86.63 lakhs provided respectively in 1972-73. The directors have recommended an equity dividend of 10.8 per cent for 1973-74. It will absorb Rs 50.94 lakhs and will be paid out of the general reserve.

Bharat Steel Tubes

Bharat Steel Tubes is setting up a project for the manufacture of hand tools at Aurangabad, an industrially backward district of Maharashtra and foreign collaboration arrangements have been approved by the government. Project cost and other details are being finalised in consultation with the technical collaborators. Bharat Gears Ltd in which the company has subscribed to equity shares worth Rs 39.07 lakhs, successfully commissioned its Rs 5 crore automobile gears plant in a period of less than 18 months after the public issue. Apollo Tubes Ltd, a project for the manufacture of steel pipes which is being set up in the industrially backward district of Tamil Nadu and in which the company has subscribed to equity shares to the tune of Rs 20 lakhs is expected to commence production towards the end of this year. The company is providing technical know-how, engineering services and supervision for the implementation and commissioning of this project. The company is also participating in the promotion of an automobile tyres and tubes plant in Kerala viz. Apollo Tyres Ltd. The project is being set up with the technical collaboration of General Tire International Company of the USA.

The company has been registered for the manufacture of pipe manufacturing plants. A pipe mill manufactured by the company after successful trials, is under installation at Apollo Tubes plant in Tamil Nadu. The technical collaboration agreement with Abbey Etna Machine Company, USA, expired on September 15, 1973. The company has developed its skills in tube technology through constant innovation, research and high priority on quality standards. It is now fully competent with its team of highly skilled Indian engineers to be able to provide technical know-how and engineering services both within the country and abroad.

Bharat Bijlee

Erratic and insufficient supply of raw materials, particularly stampings for the motor division, coupled with difficulty in raising selling prices has adversely affected the working of Bharat Bijlee Ltd during the year ended June 30, 1974. With a drop in sales from Rs 5.96 crores to Rs 5.69 crores, gross profit declined to Rs 68.15 lakhs from Rs 88.91 lakhs in 1972-73. The directors have recommended an equity dividend of eight per cent on the enlarged capital as compared to 15 per cent paid in the previous year. The entire dividend is expected to be tax-free in the hands of the shareholders as in the previous year. Out of the gross profit, the directors have provided Rs 13.33 lakhs to depreciation reserve, Rs 1.98 lakhs to development rebate reserve and Rs 27 lakhs to taxation as against Rs 11.74 lakhs, Rs 1.67 lakhs and Rs 50 lakhs provided respectively in 1972-73. This leaves a net profit of Rs 25.84 lakhs as compared to Rs 25.50 lakhs in the earlier year. Equity dividend will absorb Rs 6.40 lakhs as compared to Rs 9.00 lakhs in the preceding year while preference dividend will claim Rs 2.79 lakhs, the same as in the previous year.

British Airways

British Airways' annual report for 1973-74, warns of tough years ahead. The cost increases of £174 million forecast for 1974-75 have already engulfed the estimated financial benefits from merging the air corporations — conservatively put at £50 million—as well as the rising profits that had been expected. Even so, British Airways is and will be in better financial shape than its competitors, particularly when the full benefits of rationalisation have been realised. The report records a net profit of £16.6 million in 1973-74—£60.9 million before payment of interest and tax. A return on net assets of 11.7 per cent was achieved compared with 6.7 per cent the year, before, and a dividend of £6.1 million was paid to the government. Turnover increased by 20 per cent to £647 million while costs increased by 16 per cent to £586 million.

The results for 1973-74—the first year in which a centralised management controlled the companies and corporations within the group—justified the creation of British Airways. A major task in the year ahead would continue to be the rationalisation of activities and organisation to maximise the benefits of the merger. Taking the airline divisions individually, the report shows that European division increased its scheduled passenger traffic by 11 per cent, while earning a gross revenue of £212.8million and making an operating surplus of £16.4 million Overseas division increased its gross revenue by 21 per cent to £323.6 million, returning a record operating surplus of £36.4 million. The Regional division, operating in a difficult area of civil air transport and in an unstable economic climate, finished the year with a loss of £1.2 million even though Northeast and Cambrian managed to make a small profit. British Airways Travel division, which sells all of British Airways' services throughout the UK, earned revenue for the airline of £211, million, 22 per cent up on the previous year. Business traffic was particularly buoyant and inclusive tour traffic rose by 27 per cent.

British Airways Helicopters made an operating profit over £500,000 and prospects for the company are said to be excellent.

Surrindra Stein Malt

Surrindra Stein Malt has commenced commercial production from June 1974. There has been delay in the execution of the project mainly due to power cut in UP and late delivery of certain essential building and fabrication materials. Nevertheless the company's project for manufacturing 6000 tonnes of malt by modified seledon system with complete automatic process has been completed without any overrun. The company has already received sizable orders from leading breweries and health drink manufacturers and supplies are being effected. The company hopes to produce in the current year ending December 1974 about 1000 tonnes of malt valued at Rs 30 lakhs. In 1975 it hopes to produce about 5000 tonnes of malt with a turnover of Rs 1.50 crores. Steps are also being taken to instal a generating set to insulate against uncertain power supply.

Hindustan Sanitaryware

The problems and the prospects of Hindustan Sanitaryware and Industries Ltd were dealt with by the chairman while addressing the annual general meeting of the company. Production in the first four months of 1974-75 (April-July 1974) was slightly lower at 1773 tonnes as against 1904 tonnes during the same period of 1973-74. This shortfall of 7.5 per cent over the last year's figure was due to breakdown of generator and major repairs necessary to one of the biggest kilns. Profits, however, are not likely to decline. Paucity of raw materials, shortages of wagons and scarcity of cement for building construction may affect sales to a slight extent. But the sales of its products overseas are expected to be doubled during the current year as compared to 1973-74.

News and Notes

The government announced on September 13 the revised scale of fees for submission of applications for consent to the Controller of Capital Issues. The revised fee per application will be Rs 100 for every Rs 10 lakhs or a part thereof, subject to a ceiling of Rs 3500. The new scale of fees which came into effect immediately have been prescribed through an amendment of the Capital Issues (Application for Consent) Rules 1966.

The State Machinery Import Company (SMIC), Iraq, has placed an order with **Tata Exports** for 625 Concrete Mixers, 1500 Diesel Engine Pumpsets and 100 Diesel Engine Dumpers to service their road building, construction and agricultural activities. This order, including the earlier order for 300 Concrete Mixers this year, brings the total value of business secured from Iraq for construction and agricultural equipment, to over Rs 2.7 crores in free foreign exchange. The order will be executed by Tata Exports in association with three leading Indian manufacturers. The Concrete Mixers will be produced by Messrs. Sayaji Iron & Engineering Company Private Limited, the Diesel Engine Pumpsets by Lakshmiratan Engineering Works and the Diesel Engine Dumpers by Road Machines (India) Limited. Deliveries will commence in October and the execution of the order is expected to be completed by early next year.

Syndicate Bank has come out with a new means of mass communication to be employed for the bank's publicity campaign. This bank which has been trying to reach the masses in rural areas with its message of banking is contemplating to employ audio-visual aids to put across its message and acquaint the people with its various services and schemes of savings and finance. The bank is presently launching its publicity campaign by arranging magical performances which mainly consist of items of banking and economic interest. Syndicate Bank is the first bank in the country to employ a magician in the organisation for the purpose of using his talents and services for putting across its message in an effective way in small places and rural centres. A formal launching of the bank's publicity campaign through magical performance took place on Septembr 16 at the bank's head office at Manipal and Mr K. K. Pai, Chairman and Managing Director of the bank inaugurated the campaign.

New Issues

Century Iron and Steels Limited, is setting up a mini steel plant in the backward area at Malerkotla, district Sangurur, Punjab, for the manufacture of about 19,500 tonnes of mild steel ingots per annum. It proposes to enter the capital market by the end of October, 1974 with a public issue of Rs 33 lakhs divided into Rs 31 lakhs equity shares of Rs 10 each and Rs 2 lakhs preference shares of Rs 100 each. Out of this, the Industrial

Development Bank of India has underwritten equity shares worth Rs 5.00 lakhs while Punjab Financial Corporation has underwritten the entire preference capital of Rs 2.00 lakhs. The project is estimated to cost Rs 123.00 lakhs. The company expects to commence production by the end of this year. The company is entitled to all the benefits as are available to the industries situated in the industrially backward areas as announced by government of India and all focal point benefits as announced by the government of Punjab. The company also propose to manufacture special steels such as electrode steel, forging steel, cold heading steel, carbon tool steel and silicon manganese steel and a host of other products. The special steels fetch comparatively high price than M. S. ingots and by this diversification the company expects a substantial increase in its profitability.

Capital and Bonus Issues

The union government has granted consent to 20 companies to raise capital amounting to over Rs 10.51 crores. The following are the details:

Orient Rubber Industries Private Ltd has been accorded consent, valid for three months, to capitalise Rs 22,95,000 out of its general reserve and issue fully paid equity shares of Rs 10 each as bonus shares in ratio of nine bonus shares for every ten equity shares held.

Maneklal Harilal Spinning and Manufacturing Co Ltd, Ahmedabad, have been accorded consent, valid for three months, for the issue of bonus shares worth Rs 12 lakhs.

The Victoria Mills Ltd, Bombay, have been accorded consent valid for three months, to capitalise Rs 14,08,000 out of its general reserve and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of two bonus shares for every five equity shares held.

Kothari (Madras) Ltd, Madras, have been accorded consent, valid for one year, for the issue of redeemable convertible registered debentures worth Rs 30 lakhs, to be placed privately with Life Insurance Corporation of India.

Ahmedabad Cotton Manufacturing Co Ltd, Ahmedabad, will issue bonus shares worth Rs 23,75,000.

Powder Metals and Alloys will capitalize Rs 1,31,400 out of its general reserve and issue fully-paid equity shares of Rs 10 each as bonus shares in the ratio of three bonus shares to every 10 equity shares held.

National Rayon Corporation will issue capital of Rs 1 crore in equity shares of Rs 100 each, Rs 80 lakhs by way of rights shares and the balance through a public issue.

International Conveyors will issue capital to the value of Rs 40 lakhs (inclusive of the capital of Rs 5 lakhs already raised) in the form of 400,000 equity shares of Rs 10 each.

Cheran Engineering Corporation. Pollachi (Tamil Nadu), will issue convertible debentures worth Rs 15 lakhs only to the employees of the corporation.

Sturdia Chemicals Ltd, Bombay, have been accorded consent, valid for three months, to capitalise Rs 5 lakhs out of its general reserve and issue fully paid equity shares of Rs 10 each, as bonus shares, in the ratio of one bonus share for every nine equity shares held.

Ramon and Demm Ltd, Bombay, have been accorded consent valid for three months, to capitalise Rs 75,22,800 out of its general reserve and issue fully paid equity shares of Rs 10 each as bonus shares, in the ratio of four bonus shares for every five equity shares held.

The Kesar Sugar Works Ltd, Bombay, have been accorded consent valid for three months for the issue of bonus shares of the value of Rs 36,91,350.

Joonktollee Tea and Industries Ltd, Calcutta, have been granted consent valid for three months, for the issue of bonus shares of the value of Rs 5 lakhs.

Cambridge Instruments (India) Ltd, Poona, have been granted consent, valid for a period of three months, for the issue of bonus shares worth Rs 1,50,000.

Andhra Sugars Ltd, Tanuku, Andhra Pradesh, have been accorded consent valid for three months to capitalise Rs 1,21,49,120 out of its general reserve and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of three bonus shares for every five equity shares held.

Soundaraja Mills Pvt Ltd, have been accorded consent, valid for three months, to capitalise Rs 18 lakhs out of its general reserve and issue fully paid equity shares of Rs 100 each, as bonus shares, in the ratio of one bonus share for every equity share held.

Mettur Chemical and Industrial Corporation Ltd, have been granted consent, valid for 12 months, for the issue of convertible registered debentures of the value of Rs 20 lakhs to be privately issued to the UTI. The purpose of the issue is to meet part of finance for the expansion programme of the company.

Vikrant Tyres Ltd, Madras, has been accorded consent valid for 12 months, for the issue of capital of Rs 480 lakhs divided into 38,00,000 equity shares of Rs 10 each and 1,00,000 redeemable cumulative preference shares of Rs 100 each carrying dividend @ 9.8 per cent, for cash at par, out of which equity shares of Rs 325 lakhs and the entire preference shares of Rs 100 lakhs will be offered for public subscription and the balance of Rs 55 lakhs will be subscribed privately by the promoters. The proceeds will be utilised for the implementation of the industrial licence for the manufacture of automobile tyres and tubes.

Sakthi Pipes Ltd, Madras, have been accorded consent, valid for 12 months, for the issue of share capital of Rs 25 lakhs divided into 25,000 equity shares of Rs 100 each, for cash at par, to the friends and associates of the promoters and directors of the company by private subscription. The proceeds will be utilised for financing the working capital requirements and a portion of the earlier commitments.

Dividends

(Per cent)

Name of the company	Year ended	Equity dividend declared	
		Current year	Previous year
Higher Dividend			
Pullangode Rubber and Produce.	March 31, 1974	12.0	10.0
Gangappa Cables	June 30, 1974	12.0	Nil
Same Dividend			
Madanapalle Spinning Mills.	March 31, 1974	12.0	12.0
Reduced Dividend			
Calcutta Steel Co.	March 31, 1974	Nil	10.0
Keycee Industries	June 30, 1974	7.5	8.5
Vardhaman Spinning	March 31, 1974	12.0	15.0
Travancore Sugars & Chemicals	April 30, 1974	Nil	6.25
Deccan Sugar and Abkhari Co.	May 31, 1974	12.0	14.0
Saroja Mills	Dec, 31, 1973	7.0	12.0
Mysore Electrical Industries	March 31, 1974	4.0	10.0
Alageswar Estate	March 31, 1974	Nil	6.0
Mysore Chem. Mfr.	March 31, 1974	Nil	6.0
Rajendra Coffee	March 31, 1974	12.0	40.0
Orient Paper Mills	March 31, 1974	12.0	20.0
Hindustan Wires	March 31, 1974	6.0*	10.0
Estrella Batteries	March 31, 1974	Nil	8.0

* on increased capital

COMPANY MEETING

INDIA STEAMSHIP CO., LTD.

Address of Mr. K.K. Birla, Chairman, India Steamship Co., Ltd. (Delivered at the Annual General Meeting of the Shareholders of the Company on the 19th September, 1974).

Gentlemen,

The Audited Accounts and the Directors' Report for the year ended 31st March, 1974, have been with you for some time now and with your permission I shall take them as read.

During the year under review your Company's fleet completed 30 round voyages in the Overseas Trade and two in the Coastal Trade as against 39.5 round voyages, of which 30.5 voyages were in the Overseas Trade and 9 in the Coastal Trade in the preceding year. As mentioned in the Directors' Report, the freight earned during the year was Rs. 19,78,50,573/-.

After providing Rs. 1,79,96,468/- for depreciation and meeting all other normal charges, a balance of Rs. 3,29,31,507/- is left in the Profit and Loss Account. Out of this amount, a sum of Rs. 1,08,00,000/- has been provided for Development Rebate. The balance amount after providing for Income-tax for the year has been transferred to General Reserve.

This year the Directors recommend that out of the General Reserve a sum of Rs 31,32,500/- be distributed to the Shareholders as dividends, Rs. 1,62,500/- to the Preference Shareholders at 5% grossed up and Rs. 29,70,000/- to the Ordinary Shareholders, at 12% subject to tax — the maximum permissible rate in accordance with the provisions to the Companies (Temporary Restrictions on Dividends) Ordinance 1974.

The year that has gone by was a most challenging one, throwing up many crises. In spite of the welcome improvements on a number of fronts, agriculture still remained the weakest spot in our planning.

The severe drought in several parts of the country during the current year has greatly retarded food production and hampered procurement leading to depletion of the foodgrain stock; the widespread scarcity of essential commodities resulted in a steep spurt in price levels; there was a setback in industrial production owing to drastic power cuts, critical shortage of raw materials, labour unrest and acute bottlenecks in the transportation system.

Added to this, the international oil crisis inflicted a severe dent in our economy upsetting all the calculations of the V Plan, besides eroding our limited foreign exchange resources and aggravating the balance of payments position. Thus our economy was bedeviled by the spiralling inflation on the one hand and by the virtual stagnation in industrial growth on the other. The inflation that started over two years back has now assumed menacing proportions, making the lot of the common man more difficult that ever before.

The Government has taken several measures to pull the economy out of the rut. The anti-inflationary package measures initiated to contain the inflationary trend have not however yielded the desired results. On the other hand, the curbs imposed on money supply had adversely affected production. It has to be realised that increase in the production alone could solve the present difficulties faced by the country.

The Indian Shipping Companies particularly those engaged in the overseas trade had therefore to operate under very difficult conditions and the ever increasing operating costs. Added to this, was the problem created by the bunker oil crisis engendered by the cut back in oil supplies subsequent to the Arab-Israeli War. It was difficult for the shipping trade all over the world to obtain sufficient quantities of oil to meet their operational requirements. The increase in the crude oil prices had raised the bunker supply costs and on top of this, there was uncertainty of supply even at the enormously increased price which had made the operation of ships hazardous to say the least. But the shipping industry is accustomed to take such hazards in its stride and this renders it quite a challenging and rewarding experience.

In spite of these odds, the Shipping industry in India is making a satisfactory progress. Although the tonnage in operation at the end of the Fourth Plan period fell slightly short of the target, if the tonnage on order is taken into account, the total Indian tonnage would be found to exceed the overall tonnage target set out in the Plan, which is after all not a mean achievement.

The share of Indian tonnage in the carriage of the country's overseas trade had been around 20%, which is reported to have gone down to 16% due to the participation of the Indian tonnage in cross trade. It has been envisaged in the Fifth Plan that 50% of the overseas liner trade, 100% of imports of crude oil and petroleum products, iron ore exports to the extent of 50% to Japan and 100% to other destinations will be carried by the Indian Shipping. In order to make this possible, the target of Indian tonnage in the V Plan has been fixed at 8.6 million G.R.T. But as has been outlined above, the Plan is launched at a time when economic instability and financial stringency afflict the nation. The staggering increase in the bunker price may well affect the world trade and pose a threat of depression. There is also a distinct possibility of the reopening of the Suez Canal in the near future, which may render a part of the world fleet superfluous. But this factor, it is feared, will not bring down the prices of the new ships. The growth of Indian Shipping will have to be made within these parameters and therefore any effective development will, to a large extent, be dependent on the Government's assistance and support. Although the continuation of the Development Rebate for another year has been conceded to the shipping industry, it has not reached a stage when it can carry on without this concession or at any rate not without affecting its expansion.

The Rupee loan granted to the industry by the Shipping Development Fund Committee has been of invaluable help to the growth of Indian Shipping. The original objective of the Fund was that it would be a self-sufficient and revolving Fund which would be replenished from time to time by the Government from the budgetary allocations and from the repayment of loans as also from the interest on the loans already advanced by the SDFC. Unfortunately this objective has not been entirely fulfilled with the result that the Fund is presently almost entirely dependent on the yearly budgetary provisions. This situation has rendered the availability of loans from SDFC, to a great extent, uncertain. In the past there have been instances where non-availability of the SDFC loans due to paucity of its funds have hampered the acquisition and therefore the expansion programmes of the shipping companies. Besides, the curtailment of funds that are available with the SDFC for the disbursement of loans has proved to be an unexpected hurdle in processing negotiations for the purchase of ships. Shipping industry has been accorded a high priority in the Plan and it is therefore incomprehensible that such a situation should at all be prevailing. It is particularly necessary for the shipping companies to ensure that adequate funds would be forthcoming so that they may proceed with the acquisition and fulfil the tonnage target. Since the construction of ships involves a long period of time Shipping Companies are required to plan their orders for new ships sufficiently in advance so as to ensure that the delivery of the ships are affected within the plan period. It is in this context that the necessity of making available the rupee requirements of loan to the shipping industry to help its unhindered expansion in conformity with the Government's policy cannot be adequately emphasized.

There is a continuous escalation in the constructional costs of ships, while at the same time the main shipbuilding countries have decided on further tightening of their credit terms. This will make the developing countries like India more dependent on commercial banks and other financial institutions for credits although at a comparatively higher rates of interest. The Shipowners could also continue tne borrowing from the Euro-Dollar market, but the heavy demand for such loans in other European countries has resulted in considerably pushing up the rate of interest on such loans. In a highly capital intensive industry like shipping, the foreign exchange loans secured for acquisition of ships must have an adequate backing of the rupee loan on favourable terms. In this context, the provision of Rs. 243 crores in the Fifth Plan to be advanced to S.D.F.C. for extending loan assistance to Shipping Companies, inclusive of the spill over provision of Rs. 37.57 crores in respect of loans sanctioned during the Fourth Plan and an additional Rs. 10 crores provided for towards subsidising the cost of concessional rates of interests on its loans, requires a careful review.

While the Shipping Companies are doing their utmost to fulfil the target of expansion set out by the Government, as has been evidenced in the satisfactory growth of Indian tonnage, a favourable atmosphere conducive to its unhindered and continuous growth will greatly help in attaining the targets. The implementation of the recommendations of the National Shipping Board in respect of the S.D.F.C. loans will go a long way not only towards creating such a favourable atmosphere but also in giving the much needed impetus to the development of the shipping industry.

Shipping, as has been stated earlier, is a highly capital intensive industry. With a long gestation period, it has to compete in the international market with other maritime countries where attractive fiscal incentives and operational subsidies are a normal feature. Therefore, the justification for giving fiscal concessions to shipping needs no emphasis or elaboration. I therefore once again urge the Government for extending the Development Rebate to the shipping industry. As I stated in my last year's speech, the proposal of 20% initial depreciation is indeed an inadequate substitute for the Development Rebate, since the industry needs assistance in different ways not only for its expansion but also for enabling it to face stiff competition to which it is invariably exposed.

The first stage in the reopening of the 101 mile long Suez Canal to International Shipping has already started and the Canal will be cleared of mines, wrecks and other obstructions. It is expected that the Canal will be reopened latest by the middle of next year. As mentioned earlier, its reopening is bound to make a part of the world fleet superfluous and this has created a sense of uncertainty in the world shipping. This will have its repercussions on shipping prospects in general and the Indian shipping cannot escape it either. Despite all these problems that confront the shipping industry — which has now firmly established itself — the industry is capable of surmounting all these difficulties and maintaining its steady progress.

I am happy to inform you that as has been stated in the Directors' Report the Company has added 3 ships to its fleet during the year. Two of these ships have already been taken delivery of and the third one is expected to be delivered in a couple of months. These are very modern and sophisticated ships which are eminently suited for the Company's purpose. The fleet of the Company will be further augmented by the addition of the first of the two ships that are being built for the Company by the Hindustan Shipyard, within the course of this year. With these additions the Company would be better equipped to serve the trades.

The expansion programme of the Company is under active consideration so as to serve the export needs of the country by diversification of its trade and also by making more space available for carriage of goods. In furtherance of this policy, the Company has signed an agreement for placing an order for two ships with Hindustan Shipyard Ltd., and is also on the look out for the purchase of suitable vessels.

I take this opportunity to extend a cordial welcome to Shri Kamalapathi Tripathi who has taken over as the new Minister of Shipping and Transport. It is fervently hoped that he will successfully pursue and fulfil the far sighted policy that was laid down by his predecessor, Shri Raj Bahadur. Shri Raj Bahadur by his vigorous and dynamic policy had given an impetus to Indian shipping and his successor with his acumen, administrative experience and foresight is ideally suited to further that policy with such innovations as would help the shipping industry.

The Secretary of the Ministry of Shipping and Transport, the Joint Secretary and the Director General of Shipping and his assistants with whom we have been in close touch, have rendered us invaluable help with their advice and guidance. We are thankful to them. We are also thankful to the Shipping Development Fund Committee for their cooperation and assistance.

We are thankful to the staff, both afloat and ashore, for the care with which they have looked after the affairs of the Company during the year and to them I should like to express our thanks.

I would also like to thank all the officers and staff of the Company in India and overseas for their interest in the progress of the Company and for their diligence in carrying out their duties.

Our thanks are also due to our Agents, both in India and abroad, for the care with which they have attended to our ships' requirements in respect of freight and also in several other directions.

Our thanks are also due to shippers, both in India and abroad, who have extended their continued and firm support to us.

Thank you,

RECORDS AND STATISTICS

Reserve Bank emphasizes non-monetary remedies

THE CHANGES in monetary and credit policy effected by the Reserve Bank and the measures taken by the government in the areas of fiscal and administrative control may further restrain the growth in money supply and thereby mitigate the inflationary pressures emanating from the demand side. But, in order that these measures have a major impact, it is clearly important that non-monetary policies are also implemented to ensure a better flow of goods and discourage stockpiling. This is emphasised in the Annual Report of the Central Board of Directors of the Reserve Bank of India for the year ended June 1974.

Viewing the overall trends in the economy during the year, the Annual Report observes:

"A variety of internal and international factors combined to make 1973-74 (July-June) a year of unprecedented inflation. Prices moved up more rapidly and over a wider area than in the preceding years. Despite the measures taken to curb these tendencies, expectations throughout the year continued to favour further price increases. Both manufacturers and consumers tended to buy not only for current use but for meeting future needs as well. These demand pressures were intensified to some extent by the use of unaccounted money for the purchase of goods and services".

In such a situation and recognising the requirements of increased production and exports and greater facility for movement of goods, the Reserve Bank, according to the Report, took the deliberate decision to implement its credit policy in a flexible manner, and permit selectively the expansion of credit to sectors expansion in whose activity is in conformity with national objectives. In the process, it had to allow an increase in commercial banks' resort to RBI refinance and bill rediscounting. (Setting off the additional deposits of banks with the Reserve Bank in excess of the statutory three per cent, the net assistance provided by the Reserve Bank in these two ways was at its peak, roughly Rs 425 crores during the 1973-74 busy season). The other alternative open to the Reserve Bank was rigid adherence to the quantitative ceiling on credit stipulated at the beginning of the busy season when some of the needs that arose subsequently could not be anticipated. This course was not adopted, since it could have had an adverse impact on the production, export and distribution of essential goods.

Actual expansion of credit during the 1973-74 busy season exceeded the quantitative ceiling indicated at the commencement of the season. This should not, however, create an impression that the credit restraint measures were not pursued with rigour. Banks had to seek Reserve Bank accommodation, which was discretionary; this enabled the Bank to exercise better control over the commercial banks in regard to sectoral deployment of incremental credit. Gross bank credit (including bills rediscounted) increased by Rs 1,175 crores (18.1 per cent) during the 1973-74 busy season, against Rs 916 crores (17.4 per cent) in the previous busy season. Of this increase, food procurement advances accounted for Rs 190 crores (Rs 6 crores in the 1972-73 busy season), export credit for Rs 214 crores (Rs 114 crores), public sector undertakings for Rs 125 crores (Rs 86 crores) and other priority sectors (small industry, agriculture, etc) for Rs 219 crores (Rs 122 crores).

As a result of the relatively higher rates of growth in credit to these sectors, they accounted for 63.6 per cent of the total credit expansion in the 1973-74 busy season, against 35.8 per cent in the preceding busy season (Rs 748 crores, against Rs 328 crores). Increase in bank credit to public sector undertakings was to some extent a consequence of the policy of transferring in part certain of the responsibilities to the banking system which were earlier met through the budget. Bank advances to the residual sector (mostly large and medium industries in the private sector) showed a relatively low rate of growth (12.4 per cent or Rs 427 crores) whether compared to the overall credit expansion in the 1973-74 busy season (18.1 per cent or Rs 1,175 crores) or the expansion of credit to this sector in the previous busy season (20.6 per cent or Rs 588 crores). The share of this sector in the busy season credit expansion was 36.4 per cent in 1973-74, against 64.2 per cent in 1972-73. Thus the greater part of the increase in credit during the 1973-74 busy season was for the benefit of the export and public enterprise sectors. On the other hand, credit to industry and sonal credit expansion—was subjected to severe restraint in the 1973-74 busy season.

While there is room for improvement, the policy so far pursued has resulted in a more careful scrutiny of the loan applications and greater attention to the sanctioning of fresh limits by banks generally. There has been a pronounced upward shift in the cost of credit and most of the banks are charging medium and large industries more than the stipulated minimum rate of 12.5 per cent. On balance, it would appear that credit expansion with the help of discretionary assistance might bring about more desirable sectoral deployment of credit than if no such control were excercised. Since maximisation of resource allocation in favour of productive activities is an important objective of development finance, this aspect of credit policy is bound to be of long-term importance. Efforts will have, therefore, to be intensified in the direction of improving the evaluation of sectoral needs and efficiency of the organisational structure for deploying credit. These organisational changes are all the more important in the short-run when, according to all indications, there is unlikely to be any slackening in the demand pressures on bank credit during 1974-75.

In order to restrain the demand for credit, several measures were taken by the Reserve Bank during July 1974. The Bank Rate was raised from 7 per cent to 9 per cent. At the same time, the minimum lending rate of banks was raised from 11 per cent to 12.5 per cent (except in the case of a few exempted categories), the minimum discount rates on bill finance for drawers' bills from 9.5 per cent to 11 per cent, the rate on drawees' bills from 11 per cent to 12.5 per cent, the extrade in the private sector —which in the past used to absorb the major part of seaport credit rate from 9 per cent to 10.5 per cent (except in the case of exports on deferred payment terms, the rate on which remained unchanged at 7 per cent) and the rate on food procurement credit from 9 per cent to 11 per cent for the Food Corporation and to 12 per cent for state governments and their agencies. Banks were also required to scrutinise top 50 accounts with a view to reducing their resource to banks' credit and to ensuring its proper utilisation. Simultaneously, in order to assist deposit mobilisation and encourage savings, interest rates on various categories of commercial bank deposits were increased.

The Report has pointed out that credit and fiscal policies have to be supplemented by a variety of non-monetary measures, if there is to be a major impact on inflation. Some of the policy areas indicated are:

The primary element in any concerted action against inflation is the restraint of wage-goods prices, especially prices of food articles. Vigorous steps will, therefore, have to be taken by the authorities to secure an efficient functioning of the public distribution system for such commodities. Towards this end, the government has sought to augment domestic availabilities of foodgrains through some imports. But given the constraints of foreign exchange, it is evident that there can only be a limited volume of imports; therefore the improvement in foodgrains supply has necessarily to be based on sizeable domestic procurement in one form or another. The importance of devising policies which facilitate better market supplies of kharif crop cannot be overstressed. As past experience has shown, any significant increase in the procurement price could have the effect of generating expectations of a continuing rise in prices and reducing market arrivals. Hence, it is preferable to utilise methods other than the offer of additional price incentives for obtaining the supplies needed by government for controlled distribution.

Since the monetary and fiscal measures that have been taken for curbing demand, which will necessarily have to continue, will impinge to some extent on investment for enlargement of productive capacity in both public and private sectors, it becomes necessary for government to pay special attention to securing larger production from the capacities already existing, particularly in agriculture and basic industries, power and transport. It would be desirable to prevent diversion of scarce inputs like cement, steel, non-ferrous metals and petroleum products for production of non-priority goods and services. To ensure improved power supply it would be necessary to take steps to promote better working of power undertakings particularly of the State Electricity Boards. Apart from any incentives that may be useful in raising the productivity of labour and other resources, there is need to eliminate the production losses arising from organisational deficiencies, administrative delays and lapses in co-ordination of effort.

Simultaneously with demand curbs and output increases, stern measures are required to deal with unaccounted income and illegal transactions. The problems here are essentially those of strict enforcement of tax laws, streamlining of controls and imposition of deterrent penalties on the transgressors.

While continuous curbs will have to be maintained on the growth in money supply, it would be a mistake to seek to remedy the present problems through such measures as a sudden sweeping cut in money stock, both currency and bank deposits, as has been suggested recently. Such a measure would not affect accumulated stocks of commodities; it would also leave unaltered the monetary value of existing contractual obligations. Apart from shaking the people's confidence in currency and bank deposits, these apparently drastic measures do not necessarily make the holding of illegal or speculative stocks of commodities difficult or unattractive. The presumptions underlying this kind of approach—that the money stock can be reduced very quickly, and that such reduction will immediately cause a drastic fall in both spot and anticipated prices—are, in our conditions at any rate, unwarranted.

Control over demand expansion, which will have impact on growth of money supply, has to be achieved through restraint in the domestic spending of public and private sectors. The government has already stated its policy to limit budgetary deficits to the amounts shown in the budgets for 1974-75. Correspondingly spending by the commercial and household sectors have to be confined to the availability of non-inflationary sources of finance.

Barring some seasonal expansion which is essential, recourse to credit should be restricted to what commercial and co-operative banks can provide on the basis of deposit accretions, after fulfilling their statutory obligations in respect of cash reserves and liquidity. With the increase in cost of credit, closer scrutiny of loan operations, and limitation of access to the refinancing and rediscounting facilities at the Reserve Bank already in operation, it should be possible to ensure that provision of credit to the commercial sector in the year 1974-75 will coutinue to be on a stringently controlled basis. Given such regulation on the credit side, and assuming that deficit financing by the government will be held at a low level, the rate of growth of money supply in coming year should be considerably less than in the past two years.

Determined efforts have to be made to achieve a progressive increase in agricultural and industrial production if the inflationary pressures are to be curbed effectively. In the agricultural sector especially, it would be necessary to accelerate technological and institutional changes for securing larger outputs. The establishment of a strong uptrend in agricultural production would have a major impact on wage-goods prices, and on raw material costs in several industries. Alongside of this, if the power and transport bottlenecks are mitigated and scarce raw materials allocated in a manner benefiting priority industries, it would be possible to step up the rate of growth of real output in the economy sufficiently to avoid a recurrence of the pressure on prices. Without such developments on the supply side, it would not be realistic to expect a quick transition to conditions of normalcy.

II

The main developments in the Indian economy as reviewed in the annual report of the Reserve Bank are summarised below:

A variety of internal and international factors combined to make 1973-74 (July-June) a year of unprecedented inflation. Prices moved up more rapidly and over a wider area than in the preceding years. Despite the measures taken to curb these tendencies, expectations throughout the year continued to favour further price increases. Both manufacturers and consumers tended to buy not only for current use but for meeting future needs as well. These demand pressures were intensified to some extent by the use of unaccounted money for the purchase of goods and services. Simultaneously, price increases of the past were being translated into higher costs in virtually all sectors of the economy. Altogether, the situation at the end of the year was such that, unless adequate steps were taken, there was a danger of further accentuation of inflationary tendencies.

The increase in aggregate output during 1973-74 was clearly larger than in the two preceding years. This did not, however, get reflected in any moderation of price movements, partly because aggregate domestic expenditure continued to expand, but principally on account of shortcomings in regard to procurement and distribution of food articles, provision of power and transport facilities, and maintenance of industrial peace.

Besides demand pressures, cost factors were also responsible for pushing up prices in the last twelve months. The continuing increase in the prices of wage goods led inevitably to a revision of pay and other emoluments in both public and private sectors, enhancing labour costs generally. The controlled prices of many agricultural and industrial commodities were raised substantially and these, together with the annual additions to excise and sales taxes, pushed up production costs in a chain reaction. Side by side with these internal developments, steep increases in world prices of food articles as well as of basic metals and chemicals intensified the pressure on costs and prices in India. In the last quarter of 1973, the situation was worsened by the large increase in the price of petroleum and petroleum products. Speculative currency movements and floating exchange rates magnified the uncertainties in world markets generally, and contributed to the transmission of inflationary influences from one country to another. India could not be, and was not, immune to these influences from abroad. Price increases in India were thus neither an isolated nor a purely monetary phenomenon.

The provisional estimates of national income for 1972-73 indicate a growth rate of only 0.4 per cent (at 1960-61 prices), showing a further decline from the low 1.7 per cent registered in 1971-72. Though official estimates for 1973-74 are not yet available, there is little doubt that a substantial improvement in growth rate was achieved. In the government of India's Economic Survey for 1973-74 (prepared in February 1974), national income in real terms—that is at 1960-61 prices—is estimated to have risen by about 6 per cent. While the rise might well have been of this order, it should be noted that the increase was in relation to a year of very poor performance.

The reversal of the declining trend in national income in 1973-74 is attributable primarily to sizable increase in the output of both foodgrains and other agricultural products, although the actual output of foodgrains was considerably short of the overall target of 115 million tonnes. However, taking into account the increase in population in the meantime, the per capita availability of most commodities could not have been better than in 1970-71 or 1971-72. Further, due to the sharp decline in output during 1972-73, there was, in addition to the demand for current consumption, the demand for replenishment of depleted stocks. Aided by strong expectation of a price rise, these continued pressures further aggravated the shortages.

In the calendar year 1973, there was virtual stagnation (0.7 per cent rise) in overall industrial production as compared to the 7.1 per cent rise in 1972 due to power shortages, transport bottlenecks, paucity of raw materials and labour unrest. Nearly 60 per cent (by weightage) of the industries showed declines in production, against 10 per cent in 1972.

Intense demand pressures persisted throughout the year, thanks to increased expenditures in both government and private sectors. The aggregate expenditure of central and state governments during 1973-74, recorded a rise of 10.2 per cent over 1972-73. Despite an increase of 11.0 per cent in receipts (revised estimates), there would have been a combined overall deficit of Rs 861 crores. But the latest figures available now show that the actual deficit was substantially less at Rs 495 crores.

As against the budgetary expectation of a saving of 14.6 per cent of the central government's current income in 1973-74, only 8.3 per cent could be saved. With a sharp reduction in the gross savings of departmental undertakings, ascribable mainly to net loss incurred by Railways, the ratio of public sector's savings to national income is estimated to have declined considerably in 1973-74, notwithstanding an improvement in the savings of non-departmental undertakings. Altogether, it would appear that the upsurge in consumption expenditure at current prices has been relatively more than the increase in national income. Hence net domestic savings as a proportion of net national income declined to 9.9 per cent, from 11.0 per cent in 1972-73. Net inflow of external resources also declined, albeit marginally. Consequently, the increase in net investment at current prices was smaller than that in net national income; and net investment as a proportion of national income declined sharply.

Imbalances in supply and demand, made worse by inflationary psychology and cost escalations, were bound to influence the behaviour of prices. The wholesale price index recorded a rise of 27.9 per cent in 1973-74 (year ended June), as against a rise of 21.5 per cent in the previous year. As in the last year, a steep rise in the prices of food articles was the major element in the ascent of the price index. Sharp increases in cereal prices were partly due to substantial revisions in procurement prices and, in the case of wheat, also on account of change in the basis of computing the index. To a large extent, however, much lower rates of growth in actual output of wheat and coarse grains than envisaged originally contributed to a serious imbalance between the supply and the demand from a steadily increasing population. Stagnant production in recent years explained a further rise in the prices of pulses. In sugar and edible oils, increased production could only slightly subdue the rates of increase in prices.

The central government's expenditure, which was to have declined by 2.6 per cent in terms of 1973-74 (April-March) budget estimates, recorded an increase of 5.8 per cent, ascribable solely to the rise of 14.2 per cent in non-developmental expenditure, while developmental expenditure (largely its investment component) recorded a fall of 2.6 per cent. A number of expenditure control measures taken by the central government helped the centre's 'budget deficit' to be limited to Rs 320 crores and the net *RBI* credit to government sector to Rs 764 crores. However, it was only in the last few months of the fiscal year that reduced spending by government was achieved. The state governments kept their combined deficit more or less within the limit anticipated in their budgets. As against the originally anticipated deficit of Rs 202 crores in 1973-74, the revised estimate of deficit was only marginally higher at Rs 211 crores. More recent data, however, indicate a lower deficit of Rs 175 crores.

It would appear that the state governments have tried restrain demand pressures emanating from their budgetary operations. Their own resource mobilisation effort in 1974-75 is expected to be noticeably better than in 1973-74. But, in view of the increased provision for additional dearness allowance payments to state government employees, more steps will have to be taken to raise additional resources if demand pressures are to be averted.

Money supply registered an expansion of Rs 318 crores in the 1973 slack season (May-October)—mainly during the month of October—due to large increases in bank credit to both government and com-

mercial sectors. There was a rise of Rs 602 crores in net bank credit to the government sector and of Rs 432 crores in gross bank credit to the commercial sector, including public sector enterprises and state governments for commercial purposes. The expansionary trends in money supply gathered considerable momentum in the 1973-74 busy season as in the previous season. Even so, the increase was lower at Rs 1,266 crores (+12.8 per cent), against Rs 1,289 crores (+15.5 per cent). However, unlike in the 1972-73 busy season, when net bank credit to the government sector was a significant element in money supply expansion owing to large budgetary deficits, such credit increased by only Rs 266 crores in the 1973-74 busy season; at this level it was only one-third of the increase (Rs 884 crores) in the 1972-73 busy season and the lowest in the last four busy seasons. Net RBI credit to government increased by only Rs 193 crores in the 1973-74 busy season, against Rs 971 crores and Rs 672 crores, in the preceding two busy seasons, respectively. During the whole of 1973-74 (July-June), money supply rose by Rs 1,425 crores, against Rs 1,439 crores in 1972-73. The increase in the net RBI credit to government was lower at Rs 421 crores, against Rs 955 crores, while the increase in gross bank credit to the commercial sector was higher at Rs 1,724 crores, against Rs 1,195 crores.

After the large expansion in bank credit during the 1972-73 busy season, the situation was held in check during most of the 1973 slack season. Between end-April 1973 and end-August 1973, the net expansion in total bank credit was confined to Rs 48 crores. There was, however, a large expansion of Rs 266 crores in the last two months of the season, that is, between end-August and end-October. In other words, the actual increase in total bank credit during the 1973 slack season was Rs 314 crores, against Rs 67 crores in the 1972 slack season. Aggregate deposits went up by Rs 900 crores, against Rs 705 crores. During the 1973-74 busy season, total bank credit rose by Rs 1,037 crores against Rs 897 crores in the previous busy season. Aggregate deposits increased by Rs 682 crores, against Rs 811 crores. Taking the year (July 1973 to June 1974) as a whole, total bank credit registered an expansion of Rs Rs 1,321 crores (20.6 per cent), against Rs 932 crores (17.0 per cent) in the previous year. In contrast, the growth rate in aggregate deposits, which had slided down from 22.4 per cent (Rs 1,393 crores) in 1971-72 to 20.4 per cent (Rs 1,556 crores) in 1972-73, declined further to 16.0 per cent (Rs 1,470 crores) in 1973-74.

In order to enable banks to plan properly their credit portfolios during the year 1974-75, an indication of the general line of policy for the future was given to banks in April 1974, just as the 1973-74 busy season was ending. The need for reducing the rate of increase in bank credit was stressed. While lendable resources impounded for one year—as then stipulated by raising the cash reserve ratio by two percentage points from end-June 1973—were released from end-June 1974 (on the expiry of the year), the statutory minimum liquidity ratio was simultaneously stepped up by one percentage point to 33 per cent. The minimum cash reserve ratio now stands at five per cent (as compared with three per cent for all these years until after June 1973). In order to restrain the pressure of demand on credit, several measures were taken by the Bank in July 1974. Bank Rate was rised from 7 per cent to 9 per cent. At the same time, the minimum lending rate of banks was raised from 11 per cent to 12.5 per cent (except in the case of a few exempted categories), the minimum discount rate on bill finance for drawers' bills from 9.5 per cent to 11 per cent, the rate on drawees' bills from 11 per cent to 12.5 per cent, the export credit rate from 9 per cent to 10.5 per cent (except in the case of exports on deferred payment terms, the rate on which remained unchanged at 7 per cent) and rate on food procurement credit from 9 per cent to 11 per cent for Food Corporation and to 12 per cent for state governments and their

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agencies. While all these measures operated through the rise in cost of credit, banks were asked to scrutinise the top 50 accounts with a view to reducing the commercial sector's recourse to bank credit and to ensuring its proper utilisation. Simultaneously, in order to assist deposit mobilisation and encourage savings, interest rates on various categories of commercial bank deposits were increased. The maximum rate payable on deposits of over five years was raised from 8 per cent to 10 per cent per annum.

During the year 1973-74 (July-June), commercial banks opened 1,593 offices in India, against 1,756 offices opened in 1972-73 and 1,612 offices in 1971-72. While it might appear that the branch expansion tempo of the earlier years was not sustained in 1973-74, it should be recognised that this was achieved despite the diminishing number of identified locations with basic infrastructural facilities and the intensifying manpower constraint. As in the past, the bulk of the new offices (1,206 or 76 per cent) was opened by public sector banks.

At the end of September 1973, total advances to priority sectors amounted to Rs 1,560 crores, more than three times such advances in June 1969. Direct finance to agriculture, which was negligible in 1969, accounted for nearly a quarter of the group total in September 1973. Advances to retail trade, small business and transport operators constituted the balance. The banks further developed the area approach which aims at an intensive coverage of selected areas for meeting the total credit needs of borrowers and for ensuring effective supervision over the end-use of loans. The total number of villages adopted by the nationalised banks as at the end of June 1973 was 9,631. In addition, one bank adopted 67 compact Area Integrated Development Centres. The modifications in the scheme of differential interest rates, effected in March 1973 with a view to bringing under its purview a larger number of persons from the weaker sections of the society, seem to have imparted a wholesome effect. Advances outstanding under the scheme, which increased from 87.26 lakhs spread over 26,202 accounts in December 1972 to Rs 4.33 crores spread over 1,08,178 accounts in June 1973, rose sharply to Rs 10.85 crores spread over 2,56,237 accounts at the end of March 1974. The average amount per account rose from Rs 333 in December 1972 to Rs 423 in March 1974.

In the sphere of cooperative banking, the main emphasis was on aligning policies with measures adopted to attain the overall objectives of monetary and credit restraint. The procedures and practices followed by cooperative banks were geared to subserve this purpose. At the same time, efforts were continued to reduce regional imbalances in credit distribution and extension of assistance largely in favour of the small and economically weak farmers. Steps were also taken to rehabilitate weak cooperative banks and provide incentives to them to become viable units.

The Reserve Bank sanctioned during the year 1973-74 credit totalling Rs 431 crores to state cooperative banks for financing seasonal agricultural operations and marketing of crops at a concessional rate of two per cent below the Bank Rate, against Rs 416 crores sanctioned in 1972-73. The outstanding as on June 30, 1974 stood at Rs 151 crores, against Rs 145 crores. The medium-term loans sanctioned by the Bank at a concessional rate of 1½ per cent below the Bank Rate amounted to Rs 12 crores, against Rs 9 crores. The outstandings as on June 30, 1974 were Rs 20 crores, against Rs 17 crores. The Bank also sanctioned medium-term credit limits of Rs 22 crores at 1 per cent below the Bank Rate for conversion of short-term loans into medium-term loans in the scarcity-affected areas. Loans amounting to Rs 8 crores were sanctioned during 1973-74 out of the National Agricultural Credit (Longterm Operations) Fund for contribution to the share capital of cooperative crrdit institutions. The outstanding loans given by state cooperative banks for various purposes as on June 30, 1973 stood at Rs 623 crores, of which the amount owed to the Reserve Bank was Rs 259 crores.

There was a significant step-up of Rs 133 crores in sanctions and Rs 75 crores in disbursements of financial assistance provided by term-lending institutions during 1973-74 (April-March), against a fall of Rs 9 crores in sanctions and a small rise of Rs 15 crores in disbursements in 1972-73. The increase in sanctions was mainly on account of the substantial rise of Rs 126 crores to Rs 366 crores in the rupee loans sanctioned. Foreign currency loans sanctioned by ICICI marked a substantial rise, while those sanctioned by IFCI were maintained at the previous year's level. Though the total assistance sanctioned by all term-lending institutions by way of underwriting and direct subscriptions to shares registered a rise, subscriptions to debentures were lower. The rise in sanctions was due mainly to the remarkable rise in the total sanctions of IDBI. The IDBI continued to concentrate on several measures (initiated since 1970) relating to promotional and developmental activities for meeting the twin-objectives of balanced regional development and acceleration of industrial growth.

The situation in the external world was not such as to moderate the effects of supply-demand imbalances in the domestic sector. The export performance was certainly impressive in several respects. Exports during the financial year 1973-74 recorded a remarkable increase of 23 per cent over the previous year. In the context of the high levels of demand in the rest of the world, India's exports continued to be buoyant and unit value realisations in respect of several traditional and non-traditional items improved. Import payments, however, were significantly higher, while net inflow of external resources was somewhat lower. In the result, excluding the total drawals of Rs 355 crores from the IMF and omitting the net increase attributable to the appreciation of some of the currencies held, the foreign exchange reserves declined in 1973-74 by Rs 117 crores, as against the marginal rise of Rs 3 crores in 1972-73. For the year 1973-74 as a whole, there was a trade deficit of Rs 225 crores, as against a surplus of Rs 164 crores in 1972-73.

An important development in the sphere of exchange control during the year was the coming into effect, on January 1, 1974, of the Foreign Exchange Regulation Act, 1973, which replaced the earlier act (Foreign Exchange Regulation Act, 1947). Another development was the scheme instituted by the Bank for providing protection against the adverse effect of fluctuations in exchange rates on the export earnings of exporters of goods on deferred payment terms.

The Reserve Bank's income (after making adjustment for various provisions) during the accounting year ended June 1974 was Rs 310.48 crores, as compared with the previous year's income of Rs 271.29 crores. Total expenditure amounted to Rs 50.48 crores, against Rs 41.29 crores. After appropriate transfers totalling Rs 115 crores to the National Agricultural Credit (Long-term Operations) Fund, National Agricultural Credit (Stabilisation) Fund and National Industrial Credit (Long-term Operations) Fund, the surplus profit set aside for payment to central government was Rs 145 crores, against Rs 130 crores in the previous year.

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