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Leading Articles

Rewriting the fifth Plan

FEVERISH ATTEMPTS are being made in Yojana Bhavan to re-shape the fifth five-year Plan ending in 1978-79. While most of the targets indicated in the draft of the Plan are being revised, the Planning Commission has also set the target of completing the revised Plan before the end of the next month when a full meeting of the Planning Commission is proposed to be held under the chairmanship of the prime minister.

Redrafting the five-year Plan when the first half of the period covered is fast approaching its end, can hardly be an exciting experience for the pundits of the Planning Commission whose instruments have so far proved unequal to the task. However, in keeping with past tradition, the Planning Commission will not miss the opportunity to outline the broad contours of the sixth five-year Plan (1979-84). Its forward-looking instincts seem to be irrepressible, however dim the images it is able to see about the shape of things to come.

Since the Plan for the current year has already been finalised, the exercise requires forecasting the trend of the economy for the next two years in so far as the fifth Plan period is considered. But even then, Yojana Bhavan must undertake consultations with all the ministries of the central government and the state governments as if a new Plan was being drafted. It is these discussions which have held up the finalisation of the document. Presumably, the Planning Commission wishes to bring about a consensus among the participants about the contents of the Plan before putting its own stamp on it. Ultimately, it is the central ministries and the states which will have to bear the responsibility of implementation. At the time of writing, the consultations with the ministries are over while the dialogue with the states has already begun. In these meetings, all the emphasis has been put on the public sector projects, especially the core sector. The performance of the private sector is presumed these days to follow the course which the public sector takes.

The estimated resources for the public sector in the fifth Plan period had been put in the draft document at Rs 37250 crores (at 1972-73 prices). The outlay for the first three years of the Plan has already totalled Rs 19,000 crores—not at 1972-73 prices but at current prices. In view of the sharp rise in prices in 1973 and 1974, the real content of this outlay will be considerably less. Going by numbers alone, it may not be difficult to raise the outlay for the next two years to Rs 19,000 crores at current prices. Roughly it may be assumed that the outlay of Rs 38,000 crores for the quinquennium in the public sector may be less by at least one-third of the originally assigned purchasing power. Consequently, the revised Plan may not succeed in achieving the targets of even the core of the Plan. Already, the target for coal has been slashed from 135 million tonnes to 125 million tonnes. It may be recalled that the Fuel Policy Committee had recommended the target of 145 million tonnes of coal for 1978-79 in the wake of the oil crisis. Since demand for coal has fallen far short of production with accumulation of stocks at pitheads, there was no option but to scale down the target. And the same trend is likely to prevail in other industries.

For instance, latest exercises in regard to the demand for steel have required a reappraisal in the production plan. As against the original target set in the draft of the Plan at 9.4 million tonnes, the current thinking is in favour of reducing it to 8.8 million tonnes. The output of integrated steel plants at 7.74 million tonnes coupled with the production of electric arc furnace industry at 1.06 million tonnes is expected to make up the revised total.

If the demand for steel is not picking up according to expectations, the cement industry also is suffering from slackness in demand. Accordingly, the target for cement for 1978-79 is proposed to be reduced from 25 million tonnes to 20.8 million tonnes out of which as much as 1.5 million tonnes is likely to be exported.

Surely the draft need not be recast entirely because the broad objectives and the strategies remain unchanged. To a mid-term appraisal need to be tagged the targets for 1978-79 on the basis of the most realistic assessment of the resources which can be mobilised. The decline in prices and the increase in production in the major sectors of the economy during the past one year provide a hopeful base on which to draw up the pyramid of the Plan. To borrow a Johnsonian phrase, the success of the economy in recent months has fed us with "continual renovation of hope" but let us also pray that it does not "end in a constant succession of disappointment".

Mr Sankar Ghose, the union Planning minister, has made a cheerful assessment of planning in one of his talks in the capital (see 'Planning Today', Page 11). What has been achieved so far is by no means modest but the problem of providing jobs to the rising numbers of the unemployed has already assumed gigantic proportions. Granted that the Planning Commission is studying the unemployment problem and its findings and recommendations will be included in the recast Plan document but let us not forget that it is the expansion of activities in both the public and private sectors which will absorb the growing army of the unemployed.

The private sector units have lent their full support to increasing production though their efforts have been thwarted by the tight credit policy and high interest rates. While the government has categorically refused to give any relaxation in regard to both for fear of destabilising the price situation, it needs to be emphasised that underutilisation of available capacity will be hardly helpful in the attainment of the goals the planners may set in the revised Plan.

Money for modernisation

THE EXECUTIVE committee of the Federation of Indian Chambers of Commerce and Industry (FICCI), at its meeting held in Bombay on June 12 this year, suggested that an outlay of Rs 1340 crores would be needed for the modernisation and rehabilitation of traditional industries such as cotton textiles, jute, and sugar. It is not known if the FICCI has made specific proposals as to how these funds are to be obtained, apart from urging that the Industrial Devlopment Bank should make available on easy terms a part of the funds deposited by companies. The government of India should give increased attention to modernisation since these industries play a major role in earning foreign exchange and in providing employment. In his budget speech on May 15 this year, Mr C. Subramaniam, the union Finance minister, said that it was "a matter of particular concern to us that such important industries as cotton textiles, jute manufactures and sugar have not devoted enough resources to modernisation and expansion". He rightly said that the country had "a vital stake in the good health of these industries".

The programme of modernisation can be expeditiously implemented only if the government and the industry work in close cooperation with each other. Mr Subramaniam said in his budget speech that "fiscal policy should be oriented to provide the necessary stimulus for the growth and modernisation of the corporate sector". But is the fiscal policy at present really oriented in this direction? The government has been far too selective in giving the investment allowance and has imposed conditions some of which are not easy to fulfil. Moreover, the policies of the government in regard to pricing, credit, imports, and labour relations should also be so implemented as to facilitate the rapid modernisation of industries.

pricing policy

In the case of the sugar industry, for instance, the pricing policy has put many units to loss. Studies by the Reserve Bank of India have revealed that the average return for the sugar industry for the 13 years ending 1973 was only 9.2 per cent while it was 13.9 per cent for other industries. According to the Indian Sugar Mills Association, (ISMA), as many as 32 per cent of the units suffered loss in 1973-74. In 1974-75 the proportion of losing units was estimated at between 70 to 80 per cent. The industry has also been facing delay and difficulty in getting bank credit. The ISMA recently pointed out that in many cases the time-lag between the date of application and the actual sanction of increased limit was more than six months. It has been estimated that there was a resource gap of about Rs 120 crores between the actual requirements of bank finance and its avilability in respect of the members of the Association.

The profitability of the cotton taxtile industry has also suffered because of the recessionary conditions and the operation of the controlled cloth scheme. At the annual general meeting of the Indian Cotton Mills' Federation (ICMF) held in Bombay on September 30 last year, it was observed that "the present recession has mauled the industry so badly that it will take another five years to balance itself" and that "the prospects for modernisation are remote, unless the industry is allowed to earn reasonable profits and retain them for that specific purpose commensurate with the availability of indigenous machinery". In the jute industry also, the poor financial condition of the mills has been an impediment to modernisation. The industry has pointed out that the introduction of the investment allowance by itself will not help it to go ahead with its scheme of modernisation and that financial assistance has to be provided in a more effective manner.

textile machinery

The availability of textile machinery from indigenous sources has improved in recent years. The value of the cotton textile machinery produced in India went up from Rs 30.23 crores in 1970 to Rs 72.51 crores in 1974 and to Rs 61.55 crores in the first nine months of 1975. The industry has also achieved much success in exporting its product. In 1972-73 the value of textile machinery exported was Rs 4.35 crores which increased to Rs 17.27 crores in 1974-75 and Rs 15.24 crores in 1975-76 (April to October). But imports of textile machinery, components and accessories also inceased from Rs 16.41 crores in 1972-73 to Rs 17.17 crores in 1973-74. These amounted to Rs 11.15 crores in 1974-75 (April to December). The textile machinery industry has a large unutilised capacity. The licensed and installed capacity of the industry at present is officially placed at Rs 255 crores and Rs 213 crores respectively.

The capacity for manufacturing jute mill machinery is also considered to be sufficient. The total value of jute mill machinery, spares and accessories produced in the country in the first ten months of 1975 was Rs 4.42 crores against Rs 5.50 crores in the same period of 1974. A recent report issued by the union Commerce ministry has said that "rapid erosion of export demand for Indian jute good and the difficult financial condition of the jute mills has led to a contraction of demand for jute machinery for modernisation and replacement and as a result, there was considerable under-utilisation of capacity of the jute mill machinery manufacturing units".

But the availability of machinery from indigenous sources will not by itself help to speed up modernisation unless the industries are enabled to secure it at reasonable cost. There has been a general complaint that the Industrial Development Bank is charging high rates of interest. But Mr Raghu Raj, the chairman of the bank has denied this charge. In a recent speech at Calcutta, he said: "I have heard the view expressed that the cost of funds under our machinery bills rediscounting scheme is quite high. Correct calculations will show that the interest incidence works out to about 15 per cent for a period up to five years. You will agree that this compares favourably with the interest rates the banks charge. Moreover, our scheme is more or less an automatic scheme which allows the replacement, modernisation, rehabilitation, and expansion needs of units up to some limits to be met promptly without any IDBI appraisal. This has been a very popular scheme particularly among the textile mills and has been helping the modernisation programme of the mills considerably. The scheme has also helped a number of small and medium entrepreneurs to carry out their expansion schemes expeditiously. I may mention that the assistance under the scheme does not attract any conversion clause". But the fact that modernisation has been making very slow progress seems to indicate that the IDBI's scheme is not as popular as it is claimed. The FICCI, the ICMF, the ISMA and the Indian Jute Mills Association should make detailed studies of the problem of modernisation and offer specific suggestions as to how this programme is to be financed and implemented in a short period.

Bank rate and borrowing rates

THE BANKING system may soon be in a position to meet all the needs of the central and state governments and public bodies and borrowers in the priority sectors, once its preoccupation with the expansion of food credit subsides and other ways are devised for handling surpluses of foodgrains in periods of plenty. The Life Insurance Corporation, provident funds and Trusts are also adding to their resources increasingly and the vigorous monetisation of the economy and inculcation of the habit of regular savings from the current income may well result in a significant augmentation of the aggregate pool of resources. The only question is how far the new trend in growth of bank deposits is reliable and to what extent the recent additions to the working funds of scheduled commercial banks have been exaggerated by a heavy inflow of invisible receipts.

The increase in deposits of the scheduled commercial banks between December 26, 1975 and June 11, 1976 has been spectacular at Rs 1328 crores against only Rs 733 crores in the corresponding period in 1975. Also between March 28, 1975 and March 26, 1976 the rise was impressive at Rs 2,196 crores. With a sizable improvement in agricultural production and better functioning of the branches of rural banks and scheduled commercial banks, it may not be wrong to presume that the additions to deposits in the year ending March 31, 1977 will be even Rs 3,000 crores against the estimate of the Reserve Bank of Rs 2,600 crores.

The contribution to this new growth rate through remittances from nonresidents to dependents in this country may be Rs 400 crores if not more, while the opening of accounts by non-resident Indians may be providing another Rs. 200 crores. It can, therefore, be said that the mobilisation of deposits from the indigenous sources will be around Rs 2000 crores annually. This performance is commendable as not long ago the annual rise in deposits was only Rs 1200 crores and Rs 400 crores in the mid sixties.

The lending institutions would have had a problem of disposing of their funds in the past few months if there had been no large expansion of food credit. Against rise in deposits by Rs 1,327 crores, non-food credit grew by only Rs 478 crores against Rs 357 crores in the same period in 1975. Food credit on the other hand increased to the extent of Rs 1,227 crores out of which the refinance facilities provided by the Reserve Bank accounted for only Rs 499 crores. The banks have thus found out of their own resources as much as Rs 726 crores for financing procurement operations. Investments in government securities and treasury bills alone were higher at Rs 260 crores against Rs 111 crores. Even in the first half of 1975 the increase in food credit was more than the rise in non-food credit, with their shares being Rs 595 crores and Rs 357 crores respectively.

additions to deposits

In the nine months ending March 31, 1977 the additions to deposits may be in the region of Rs 2,300 crores. Food credit may not account for an additional Rs 500 crores and if the present system of refinance continues to be in force the draft on bank funds will be only Rs 170 crores. The growth in non-food credit may not be more than Rs 1300 crores, based on the experience of banks in 12 months ended June 11, 1976. During this period the increase in aggregate advances was Rs 2528 crores with an expansion of food credit by Rs 1356 crores. Non-food credit rose by only Rs 1,172 crores.

What are the justifiable inferences from these trends? Obviously, food credit cannot be rising at the last year's rate as it is not necessary to have buffer stocks including operational stocks of more than 18 million tonnes. Yet there will be an inevitable rise to over 21 million tonnes by March next year if there is a repetition of the happenings of the last kharif season. Actually, a bigger accumulation could be avoided only with a relaxation of restrictions on movement of foodgrains or sizable exports. There will also have to be a total ban on food imports. A definite view in this regard can of course be obtained only when the monsoon has behaved satisfactorily,

surfeit of funds

On the assumption that the growth in deposits in the nine-month period will be Rs 2300 crores and food credit will absorb a net amount of Rs 170 crores out of deposits, there will be a balance of Rs 2,130 crores available for disposal. The usual 40 per cent will have to be segregated for observing statutory obligations and maintaining reasonable cash balances. These will account for Rs 920 crores with investments alone accounting for Rs 759 crores. There will thus be an availability of Rs 1,210 crores against which the expansion of non-food credit will be around Rs 1000 crores. There will of course be wide fluctuations in the use of credit at particular stages; but this analysis shows that banks will be in a position to invest additionally Rs 210 crores in government and approved securities over and above Rs 759 crores as indicated above. Will it then be correct to say that banks alone will be providing over Rs 950 crores for the borrowing programmes of the central and state governments and public bodies in the next nine months? Alternatively, there may not be any need for making full use of refinance facilities.

It is against this background that the central and state governments have to formulate the policies for borrowing in the current financial year. A somewhat bold approach has already been adopted by the Reserve Bank in respect of issues of bonds by the financial corporations and state electricity boards in the past few weeks. The central government too has raised nearly 50 per cent of its net requirement for 1976-77. Against a notified amount of Rs 475 crores for three new loans, subscriptions were Rs 522.50 crores. Allowing for the repayment of maturing $4\frac{1}{2}$ per cent 1976 loan outstanding to the extent of Rs 260.16 crores, the net amount secured was Rs 262 crores. The budget estimates have assumed gross borrowing at Rs 810 crores and net borrowing at Rs 535.06 crores. After the funding operation in the first week of July, there will be only a small repayment of Rs 14.78 crores relating to $2\frac{3}{4}$ per cent 1976 loan maturing on September 16, 1976. The centre can hope to raise Rs 288 crores and much more before March next year as banks alone would be in a position to fork out additionally Rs 700 crores for all new loans, after the completion of first tranche of the borrowing programme.

encouraging outlook

The net amount borrowed by the central exchequer can, thus, be easily Rs 650 crores exceeding the budget estimate by Rs 115 crores. Even then a sizable balance will be available for the state governments and public bodies as no account has been taken in these calculations for the contributions of Life Insurance Corporation and provident funds. The centre can hope to repay the maturing $2\frac{3}{4}$ per cent 1976 loan out of its own resources and come on the market again in October after the state loans are out of the way, with the notified amount of Rs 300 crores. The outlook for borrowing is thus quite encouraging for all governments and public bodies.

There should have been normally a disposition to secure the requirements

of these borrowers on even a cheaper basis. The Reserve Bank, however has confirmed its faith in the present policy of dear money as the new medium-dated and long-dated central loans have been made more attractive for institutional investors while the short-medium dated loan has a lower redemption yield. This clearly shows that the Reserve Bank is not contemplating any major change in monetary policy in the immediate future. The three new loans have, as stated above, a notified amount of Rs 475 crores. The short-medium dated $5\frac{1}{2}$ per cent 1984 loan has an issue price of Rs 99.50 against the $5\frac{1}{2}$ per cent 1982 loan with an issue price of Rs 99.40.

issue price raised

The issue price has thus been raised even with a longer duration of eight years against seven years previously. The medium dated loan, however has an issue price of Rs 98 against Rs 98.50 previously even though the duration is unchanged at 18 years. Also the long-dated loan will be maturing after 24 years against 28 years previously, with the issue price unchanged at par. The interest rates for the medium dated and long dated loans are the same at 6 per cent and $6\frac{1}{2}$ per cent respectively. The Reserve Bank is probably feeling that the banks must help secure a larger interest income on their investments with a bigger proportion of medium and long dated loans in new additions though the open market operations in recent months have not been pursued logically.

It is not clear whether any great significance should be attached to the tactics adopted by the monetary authorities as the Bank rate is out of line with the borrowing rates of the governments, while the lending rates on advances charged by member banks are still high. There can thus be a reduction in the bank rate and the lending rate without lowering deposit rates or interest rates on loans and bonds. The profitability of working of banks will not be adversely affected as they will have much larger funds at their disposal and there has also been better control over administrative expenses. The developments in the next nine months have therefore great significance for the money market.

Wool : three bags half-full

THOUGH INDIA has one-sixth of the world population of sheep, it is not considered among the major wool producers, nor can it supply all the fine wool for its organised mill sector. According to the International Wool Textile Organisation, which has reported on the world wool situation recently, the most important producers of wool are Australia, the Soviet Union, New Zealand, Argentina, South Africa, the United States, Uruguay and Britain. During 1975-76 Australian output, though lower than the previous year by five per cent, was 752 million Kg. Soviet Union had produced 463 million Kg, New Zealand 300 million Kg, Argentina 190 million Kg and South Africa 110 million Kg. Lower in the rung, below the 100 million Kg mark, came Uruguay with 63 million Kg, United States 57 million Kg and Britain, a small country so far as size is concerned, with 51 million Kg of wool. India with some 35 million Kg came nowhere near the giant producers of the world.

It is estimated that 57 per cent of the total wool produced in this country is of carpet quality and 43 per cent of apparel quality. Of this 43 per cent, 15 per cent is of the combing type and the rest used for woollen apparel.

The Indian Woollen Mills Federation puts the total requirements of wool and other raw materials such as acrylic fibres by the mill sector on a two-shift basis at 25 million Kg. Mills are importing raw wool to the extent of about 10 million Kg per annum mainly from Australia.

According to the estimates of the Textile Commissioner, with an installed capacity of 205,000 spindles in the worsted sector and an additional 103,300 spindles proposed to be installed in the fifth Plan period, our requirements of wool in the worsted sector on a two-shift basis would be around 38 million Kg of scoured or double that amount of greasy wool. As for carpet manufacture, the installed capacity plus contemplated expansion would bring our requirements of scoured wool to some 21.5 million Kg for this sector.

While we import fine wool for our mill sector, we also export some varieties of raw wool. It is however encouraging that the export of raw wool is showing a progressive decline while that of woollens is steadily on the increase. Till 1966-67, export of wool was on an average 11 million Kg. In 1971-72 it declined to 2.5 million Kg to rise again to 5.5 million Kg in 1973-74. Import of fine wool has shown considerable decrease over the last few years. From 18 million Kg in 1969-70 imports dropped to 10 million Kg now. This downtrend must continue with the advance of the programme for the production of fine wool in the country.

Wool is not only important as a raw material for apparel in our hilly areas with extreme climate where it is most essential to ward off cold, woollen fabrics and hosiery are items of export, earning sizeable foreign exchange. The country had earned some Rs 85 crores of foreign exchange in 1973-74 through the export of sheep products. This was 17.4 per cent of the foreign exchange earnings from all livestock products in that year. The products for export were wool and woollens, skins, mutton and mutton products, casings and live animals.

The export of sheep skins has shown a steep rise with the figures for 1973-74 at Rs 32 crores, being double that of 1970-71. This trend can be maintained provided there is improved flaying and curing. Mutton, casings and live animals also have a tremendous export potential. Tinned meat and meat products can be exported particularly to the oil-rich west Asian countries.

With this potential in sheep rearing and wool production, the report of the National Commission on Agriculture has not come a day too soon. The recommendations have been made over a perspective of twentyfive years up to 2000 AD, and if implemented in right earnest, they are bound to have a healthy impact on the income of our rural sector and the earning of foreign exchange.

employment potential

Rearing of sheep provides employment opportunities to the weaker sections of our people such as Harijans, the landless and the nomadic bakarwals in hills and arid zones. It also provides supplementary income to the marginal and small farmers in the plains. Rearing of indigenous breeds does not interfere with grazing by cattle because sheep graze very close to the roots of the herbage in sparse areas in which cattle cannot normally graze because of low-set vegetation.

Consequently the yield of wool or meat is very low. The Rajasthan sheep, for instance, does not even yield 1½ Kgs of coarse wool as against 5 to 6 Kgs of fine wool produced from sheep in Australia, New Zealand or Britain. Similarly, while the maximum weight of indigenous rams of local breeds is 36 Kgs and that of ewes 27 Kg, exotic rams weigh up to 113 Kgs and ewes 74 Kgs. The wool produced in the country is mostly of inferior variety capable of use mainly in carpet making. Even carpet wool lacks that lustre which is found in Iranian, Afghan or Chinese carpets with the result that our carpets fetch in foreign markets one-third of the price obtained by the Iranian or other woollen carpets.

Sporadic attempts have been made from time to time for crossing indigenous with exotic wool breeds like Merino, Rambouillet and Polworth. From the results it appears that in arid and semi-arid areas exotic inheritance can be stabilised around 50 per cent. This would suit carpet industry well. As for fine quality wool, hill areas of Jammu & Kashmir, Himachal Pradesh, and Uttar Pradesh, and some parts of north-east India are suited for breeding exotic types of sheep. Nilgiri hills also can be tried for superior quality wool. Cross-breeding on a large scale up to 75 per cent heritage can be resorted to in these areas with Rambuillet and Merino, as large areas of grazing land of high quality are available for these breeds to thrive in. The All-India Coordinated Research Project on Sheep Breeding is working on the evolution of strains which can stand different agro-climatic conditions and yield fine quality wool and higher quantity of meat. There is no doubt that it will be able to evolve better yields. It however remains to be seen if the increase in quality and quantity of these cross-breeds are commensurate with the investment involved in concentrates, feed and fodder which our farmers can ill afford.

annual yield

At present there is hardly any investment made in sheep rearing by the rural folk. Yet it is estimated that annually our sheep population yields 34.5 million Kg. of wool, 101 million Kg. of mutton, 14.6 million pieces of skin, and undetermined benefits by way of casings and manure. Farmers consider sheep droppings a quality manure and let flocks loose in their fields after harvesting.

Sheep rearing can thrive only as part of an integrated programme of rural development. It is no use introducing exotic cross-breeds until proper arrangements are made for their feed and fodder. There is no dearth of land which can be developed for grazing. Experiments conducted by Arid Zone Research Institute, Jodhpur, have found that Rajasthan can provide ample land for grazing purposes for sheep. So can tracts in Jammu & Kashmir and Himachal Pradesh be further developed into lush green pastures by the use of fertilisers.

Artificial insemination has not been introduced in the country on any scale in sheep-rearing. But if the National Commission's prospective is to come true, there is no alternative to its introduction in the development of sheep stock. Artificial insemination has played a significant role in the upgrading of stock in the Soviet Union and other east European countries.

exploited people

Shepherds and sheep farmers are an exploited lot. The present marketing system allows large profits to beoparis and commission agents. The National Commission on Agriculture has recommended the setting up of a wool board for developing, grading, warehousing and marketing of wool. This suggestion needs to be immediately implemented because the work of grading and marketing of wool by the state departments only hampers their development work by divided attention.

The requirements of wool and mutton are steadily rising. More and more people have started eating meat. Though the sheep population also has been mounting, there has been only marginal improvement in breed with the result that our mills have to depend on import for long staple fine wool. Both in the interest of import substitution and export prospects, which are unlimited, it is necessary that the recommendations of the National Commission on Agriculture on sheep and wool development are taken seriously and every help rendered to the sheep farmers who come from the weaker sections of the population. An integrated plan of rural uplift should find an important component in sheep and wool development.

Capital's Corridors

R. C. Ummat

Agro-Industries Corporations • New Projects • Industrial Output • Indo-Pakistan Trade

THE STATE agro-industries corporations are stated to have diversified a great deal their activities in non-traditional fields in the recent past. The new activities taken up include the manufacture of agricultural implements, spare parts for tractors, power sprayers and small tools, diesel sets and power tillers and processing of food and vegetable products. They have also gone into the assembly of tractors and put up such other projects as oil extraction plants, compost plants, maize milling units, NPK granulated fertiliser plants, pesticides formulation units, fisheries projects, etc. Originally, the main functions of these corporations were the distribution of agricultural machinery and implements and establishment of custom-hiring centres and workshops.

notable achievements

The states in which notable achievements have been registered in diversifying the activities of agro-industries corporations include Punjab, Haryana, Himachal Pradesh and Uttar Pradesh in north India; West Bengal, Bihar and Orissa in the east; Maharashtra and Gujarat in the west; Madhya Pradesh in central India and Karnataka, Andhra Pradesh and Tamil Nadu in the south.

The Punjab Agro-industries Corporation has drawn up an ambitious programme for manufacturing and setting up gobar gas plants, besides producing storage bins and agricultural implements. It is expected to put up in the near future a cotton-seed processing unit also. The Haryana corporation has recently put up a unit at Sahabad-Markanda, in the district of Kurukshetra, for producing NPK granulated fertilisers to a capacity of 50,000 tonnes per annum and a fruit processing plant at Murthal near Sonepat. It has as well started an aviation wing for undertaking aerial spraying of pesticides.

World Bank aid

The Himachal Pradesh corporation has undertaken a project, with assistance from the World Bank, for the marketing and processing of apples. With a view to securing better return for apple-growers, it has also constructed at Delhi and Bombay two cold storages. In Uttar Pradesh, the agro-industries corporation has taken up even the manufacture of scooter spare parts, besides the production of agricultural implements and tractors. It has also set up a pulp manufacturing unit in Almora, packing case factories at Pauri Garhwal and Chamoli, a mentha oil plant at Kunda and three canning and bottling units at Pauri Garhwal, Hapur and Kanpur.

The Madhya Pradesh Agro-industries Development Corporation has gone in a big way for the production of improved seeds.

The West Bengal corporation has started a scheme for the manufacture of diesel engines and pesticides. It has also proposed to put up in the near future compost plants at several places in the state. The Bihar corporation has established a project for the assembly and sale of Kubota power tillers in arrangement with the Kerala Agro-industries Corporation. In Orissa, the major activity of the agro-industries corporation is the development of the dairy industry.

The Maharashtra Agro-industries Development Corporation has gone in a big way to manufacture fertilisers. Two units for the production of NPK granulated fertilisers each with a capacity of 45,000 tonnes and another for the production of super-phosphates to a capacity of 45,000 tonnes have been set up at Rasayani and Nasik. Another important activity of this corporation is the manufacture of animal feed for which one factory with a capacity of 3,000 tonnes has already been set up at Goregaon and another with a similar capacity is proposed to be put up shortly at Chirchwar, near Poona. The Gujarat corporation has established two compost plants at Ahmedabad and Baroda and has launched recently on a fisheries project costing about Rs 2.5 crores. Three cold storages have also been set up by this corporation. It has further taken up agro-aviation for aerial spray of fertilisers. The corporation has as well launched consultancy services for the preparation of project reports for establishing compost manure plants elsewhere in the country.

varied products

The Karnataka corporation has put up a modern maize milling plant and is undertaking through a subsidiary corporation the establishment of mechanised compost plants. It has also recently gone into tomato processing at Hebbal, manufacture of oil and proteins at Raichur, cultivation and processing of mushrooms, production of cigarettes and tobacco for export and formulation of pesticides. In Andhra Pradesh, a pesticides formulation plant has been set up at Kurnool. A similar project is there to the credit of the Tamil Nadu corporation also which is further setting up a modern nylon-making plant at Madras, an oil milling complex at Dharmapuri and a maize milling unit at Paddu Kotai.

The Assam Agro-industries Corporation has taken up a project for the manufacture of granulated fertilisers and cattle feed. The Jammu and Kashmir corporation has started production and supply of balanced poultry feed, besides undertaking land reclamation work in the Chhamb-Jaurian area. A cold storage has also been set up by the Jammu and Kashmir corporation in Delhi.

The diversification of the activities of the state agro-industries corporations is expected to improve their profitability considerably in the years to come. The Maharashtra corporation is stated to have reaped during the last financial year a profit of Rs 10 crores.

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The public sector units under the charge of the ministry of Industry are understood to have started manufacturing for the first time in the country several new items. These include multi-rope friction winders and flame-proof coal drills by the Mining and Allied Machinery Corporation; minimum oil circuit-breakers and special type heat exchangers by Bharat Heavy Electricals; front auto chucking lathe for manufacturing thick bottom thin walled vessels by Central Machine Tools Institute; multi-layer vessels suitable for extra high pressures, cryogenic nitrogen vessels and special shift converters by Bharat Heavy Plates and Vessels; heavy coil transport system by Heavy Engineering Corporation: 60/10-tonne level luffing cranes by Jessops and 20-tonne low bed trailers for the defence sector by Brithwaite. The last two companies, the management of which was taken over by the government of India a couple of years ago, have been nationalised this week in consonance with the declared policy of not returning the sick units taken over by it to the original owners.

Several major schemes have been sanctioned recently with a view to improving the operations of some of the public sector undertakings under the charge of the ministry of Industry. These are: (i) putting up of a plant at Tiruchi, involving an investment of Rs 58 crores, for the manufacture of seamless steel tubes under the aegis of Bharat Heavy Electricals Limited, (ii) adding of balancing facilities at a cost of about Rs 8 crores to the heavy engineering complex at Ranchi, (iii) setting up of a national welding research institute, costing about Rs 3.76 crores, near the BHEL plant at Tiruchi, (iv) establishment of a numerically controlled machine centre, involving an expenditure of Rs 2.48 crores, at the Central Machine Tool Institute, Bangalore, (v) adding of an ultra high voltage laboratory to BHEL's plant at Bhopal at a cost of about Rs 4.62 crores, and (vi) expansion of production of hair and main springs for wotches at Hindustan Machine Tools, Bangalore.

* *

The scheme of 25 per cent excise rebate for excess production announced by the union government recently, has been hailed by industrial circles. It should not only give further fillip to production but also stand the industry in good stead at the present time when its cash flow position is rather tight.

The decision to apply the concessional rate of duty to the entire output of units which came into production on or after April 1, 1976, has been particularly appreciated. In the case of the older units which were in production before April 1973, it is, however, felt that the base should have been the average of the last three years' production rather than the highest production in any of these years. It is also pointed out that the extension of the scheme to all excisable commodities manufactured in backward areas would be very helpful in accelerating their development. It is further felt that there were many other items of mass consumption as well as those constituting essential industrial raw materials to which the scheme could have been applied. Indications are that it might be extended to the textiles and paper industries.

Meanwhile, the latest statistics indicate that industrial growth in the organised sector last year was as high as 5.7 per cent, against the earlier estimate of 4.5 per cent. If note is taken of the fact that the small-scale sector's output grew by over 11 per cent during the year, the total industrial growth in 1975-75 works out at just under seven per cent. The index of industrial production hit an all-time high at 137.4 in March last. It was 10.3 per cent more than the level in March, 1975. The railway loadings last year 222 million tonnes too were an all-time record. They consisted of 196 million tonnes revenue earning traffic and 26 million tonnes non-revenue earning traffic (materials, including coal, meant for railways' own use).

* *

The union government has decided to allow with effect from July 15, 1976, participation in Indo-Pakistan trade by private importers and exporters also. Hitherto, following the conclusion of an agreement between the two countries in January 1975, this trade was on government-to-government account through the state enterprises and organisations. Private trade has now been permitted subject to the policy, procedures, rules, orders and regulations as may be enforced from time to time.

The opening up of the private trade channels which have remained closed for nearly a decade now should help further normalise the relations between the two countrier. To facilitate this trade, the rail transport link between Amritsar and Lahore is also being restored next month.

POINT OF VIEW

Planning today

Sankar Ghose

At a recent meeting of the Delhi Study Group, Mr Sankar Ghose, union minister of state for Planning, briefly touched upon the progress of planning in this country during the past 25 years and discussed in detail the progress of the economy in 1975-76 and the Plan for 1976-77. He said that the basic approach in the current year's Plan is "one of promoting growth with stability and social justice." Mr Ghose believes that to make planning successful in our country, the planning machinery at the state and sub-regional levels needs to be strengthened.

INDIA HAS completed twentyfive years of planned development. Starting from the first Plan (April 1951—March 1956), the country has formulated and implemented four five-year Plans, three annual Plans and is in the third year of the fifth five-year Plan. These plans form a continuing process, both in terms of investments and benefits. They also present a picture of evolution in basic socio-economic policies. Inevitably, there are important adaptations from one phase to another, reflecting both changing conditions and new problems arising out of fresh experience and evaluation.

long-term perspective

Each five-year Plan is conceived against a long-term perspective. The first Plan was set against a simple projection of economic growth over a period of thirty years from 1951 to 1981. The second Plan was worked out in relation to a perspective extending up to 1976. The third Plan was drawn up and implemented explicitly as the first phase of a fifteen-year Plan for the period 1961-76. In view of the uncertainty created by the conflict with Pakistan in 1965, suspension of assistance by aid-giving countries and the poor harvests of 1965-66 and 1966-67, three annual Plans (1966-69) were undertaken before conditions were found propitious for launching the next five year Plan. The fourth Plan (April 1969—March 1974) was formulated against the perspective extending up to 1980-81. The draft fifth five-year Plan delineates the profile of growth up to 1985-86.

economic strains

The fifth five-year Plan has completed two years of its five-year span and is now running in its third year. It may be recalled in this context that the country has been experiencing increasing economic strain since 1971-72, first due to refugee influx that preceded the liberation of Bangladesh and followed by occurrence of droughts and floods in large parts of the country, unprecedented hike in international prices of petroleum, sharp rise in domestic and international price levels, smuggling and black marketing, and dwindling respect for law and order.

The declaration of emergency and introduction of the twenty-point programme announced by the prime minister put a stop to this economic and political indiscipline and created conditions for a more orderly growth. As a result the Indian economy witnessed during the preceding year (1975-76) a commendable degree of price stability, substantial increase in agricultural production, especially of foodgrains, acceleration in industrial growth, increased supply of various essential commodities and inputs and greatly improved industrial relations.

The most conspicuous feature of the economic scene during 1975-76 has been the reversal of inflationary trends. The downward trend in prices which began in October 1974 was, on the whole, maintained during 1975-76. Even during the lean period between April and September, the wholesale index of prices moved within narrow limits; but after the end of October, 1975, there occurred a significant decline in the wholesale prices. The wholesale price index in the last week of March 1976 reached 282.9, the level prevailing two years back and was lower by 7.9 per cent than a year ago and by 14.4 per cent over end September, 1974. Even the average index for 1975-76 has been lower by 3.3 per cent over that of 1974-75. This negative rate of inflation is by no means a mean achievement viewed in the context of the present international price situation.

fall in prices

The fall in the general index of wholesale prices and particularly those of food articles has been followed by a somewhat similar fall in the index of consumer prices, The All-India Consumer Prices Index for Industrial Workers in the month of March 1976 reached 286 and was lower by 10.9 per cent over a year ago and 14.6 per cent over October, 1974. The Consumer Price Index for Agricultural Labourers registered even a larger fall—by 24.1 per cent during the period October, 1974 and February, 1976 because of the greater weight of food in the consumption basket.

The favourable price situation has been brought about partly through a substantial increase in the agricultural production and partly through the pursuit of a number of vigorous and stringent policy measures.

A constant watch was also kept on the trends in the growth in money supply, deficit financing and bank credit to the commercial sector so as to keep the increase in aggregate monetary resources in proper relationship with the increase in real output. Despite increased provisions made for non-plan items of expenditure such as export promotion, support to the public sector units, fertiliser subsidy, defence expenditure and dearness allowance to central government employees, and the increased central assistance of about Rs 198 crores provided to the plans of the states and the union territories, the deficit financing, according to the revised estimates, has been of the order of Rs 490 crores. According to present indications the year might close with a smaller order of deficit financing.

credit restraint

While keeping in view the considerations of price stability and the need for stimulating investment and production particularly in the priority sectors, an overall policy of credit restraint was continued to be followed by the Reserve Bank during the year.

Besides continuing the anti-inflationary measures initiated in the middle of 1974 a number of other measures were adopted, particularly after the emergency, to ensure price stability. These included crack down on economic offenders—black marketeers, profiteers and smugglers, restricting the use of unaccounted funds, statutory requirement of exhibition of prices and of stocks of selected essential commodities by traders, mandatory display of weights, measures and identity on prepacked commodities and banning of sole selling agencies in certain industries such as vanaspati, sugar, paper and cement. These measures combined with the dehoarding operations undertaken by the government on an extensive scale led to change in the psychology of both the consumer and the traders resulting in the sellers' market turning into a buyers' market in various essential commodities.

distribution system

The public distribution system for essential commodities especially cereals, sugar, kerosene, soft coke and controlled varieties of cloth has been sought to be further strengthened to ensure a wider coverage of the vulnerable sections of society in the rural, hill and coastal deficit areas as well as industrial workers and the student community. The involvement of the cooperatives in the public distribution system has been enlarged. The civil supplies department has been also monitoring the production, prices and supplies of various other essential products such as cultural paper, essential drugs, baby food, tyres and tubes. A model scheme has been undertaken in Delhi and Nainital. It is proposed to extend it to a few other centres.

The procurement prices of both rabi and kharif cereals were maintained at previous year's level as an important ingredient of stable price policy. However, to ensure a fair return to the growers and to protect their real incomes, the government decided to extend support to rabi cereals including barley as well as to gram. Statutory minimum prices of sugarcane as also of raw jute were kept unchanged. The prices of controlled cloth were kept unaltered. Sizable imports of selected wage goods—foodgrains, edible oils such as palm oil, were arranged with a view to build up a buffer stock and thus augment indigenous availability.

The current year's annual Plan (1977-76) has been formulated against the background of these improvements in the overall economic situation. The Plan takes into account the new sense of discipline and dynamism infused into the economy and the new direction to the planning process given by the 20-point economic programme announced by the prime minister. Special care has been taken to ensure that the increase in investment over the original Plan allocation does not lead to any inflationary pressure in the economy.

The basic approach of the Annual Plan 1976-77 is one of promoting growth with stability and social justice. The outlay of Rs 78,520 million earmarked for it marks an increase of 31.4 per cent over the previous year's outlay of Rs 59,780 million. This is the highest step-up in development outlay in any one year since the beginning of planning in the country. The increase in development outlay in 1976-77 over the previous year is because of the more pronounced emphasis on agriculture, irrigation, power and industry and minerals which constitute the core sector of the economy.

development outlay

The hike in development outlay in 1976-77 over the previous year is more pronounced in the field of agriculture, irrigation and power as also in industry and minerals. The provision for agriculture and allied services has been stepped up from Rs 6914.1 million in 1975-76 to Rs 8962.2 million, the increase being about 30 per cent. Besides, larger agricultural credit from financial institutions such as cooperatives, commercial banks, Agricultural Refinance Corporation, etc., are to be available as compared to 1975-76.

The outlay for irrigation and flood control has been substantially increased from Rs 4682.2 million in 1975-76 to Rs 6867.9 million in 1976-77. The allocation for power has been stepped up from Rs 11015.8 million to Rs 14534 million, an increase of about 32 per cent. The target of crop production during 1976-77 will be 116 million tonnes of foodgrains, 10.5 million tonnes of oilseeds, 150 million tonnes of sugarcane, 7.5 million bales of 170 kg each of cotton and 6.5 million bales of 180 kg each of jute and mesta.

In view of the increase in planned investment for 1976-77 the production of foodgrains might turn out to be even higher in the coming year if the weather remains as favourable as it was in 1975-76. The main elements in the strategy for promoting agricultural growth and ensuring the achievement of targets of agricultural production are the step-up in the consumption of fertilisers, increase in the area under irrigation, introduction of high-yielding varieties on a more extensive scale, and adoption of soil conservation methods. The irrigation facilities through major, medium and minor works will be extended to an additional two million hectares and the gross cropped area is expected to increase by 2.3 million hectares. Besides the intensive development programme for pulses that has been in operation in 40 districts since 1975, the intensive district programme for major commercial crops like oilseeds, cotton, jute and mesta, as also the sugarcane development in areas around sugarcane factories are proposed to be further intensified.

small farmers

Special emphasis has been given to the improvement of the productivity of small and marginal farmers particularly in the semi-arid zones. The provision for special programmes like small and marginal farmers, drought-prone area and command area development programmes has been substantially raised from Rs 806.6 million in 1975-76 to Rs 938.3 million in 1976-77. A methodology of an integrated rural development programme will be worked out on an experimental basis and a provision of Rs 150 million has been made for this purpose in the Plan.

The outlay for industry and minerals, which forms a substantial portion of the total investment in the public sector in 1976-77, has been increased from Rs 16440.2 million in 1975-76 to Rs 21853.4 million in 1976-77, an increase of about 33 per cent.

The outlook for industrial growth is promising. The position in regard to the availability of key inputs such as steel, coal, cement, power and transport facilities which has already shown improvement is likely to improve further. The installed capacity of power is likely to increase by 2.5 million kW in 1976-77. Railways are fully geared to handle the target of originating traffic of 225 million tonnes against 214 million tonnes in the previous year.

new dynamism

With the expected increase in agricultural production and agro-based industrial inputs, the new dynamism introduced in the working of public sector undertakings and the new climate of industrial peace generated in the economy, it is reasonable to expect that the rate of economic growth this year would be higher as compared to the previous year.

The various constituents of the 20-point economic programme have received massive support in this annual Plan. An attempt has been made to dovetail these programmes with the existing Plan schemes. A provision of Rs 1637.1 million has been made in the plan for various schemes relevant to this programme.

The broad developments of the economy and the investment allocations that we have been making in the Plans recently have been indicated above. However, perhaps more important than the allocations themselves are the strategies that underlie the Plan. Planning is basically to be viewed as the selection of major foci for policy action, given the constraints that the economy is facing and the objectives that it is considered desirable to attain.

Food and the agricultural sectors are of the highest importance in our planning strategy. The production and distribution of foodgrains is related critically with the objective of achieving self-sufficiency as also of providing a desirable level of income and employment which is critically linked with our redistribution objectives. The Plan at present lays great emphasis on these sectors. For large, medium and minor irrigation projects, investment allocations are being provided on the basis of a case-to-case review in order to complete on-going projects. Sufficient attention is also being paid to making new starts in these sectors. Groundwater exploration and utilisation is being given high priority. The national Plan contains schemes for strengthening the groundwater survey apparatus in each state. The Plan emphasises the introduction of new technologies in agriculture, together with the associated inputs, such as, new quality seeds, fertilisers and pesticides. The extension system at the local levels is also being considerably strengthened.

strategic objective

Energy substitution is another very important strategic objective of national planning at present. This involves stepping up investment in, and integrated planning of, the coal sector and restricting the demand for petroleum both through the fiscal mechanism as well as by exploring technological substitution possibilities by taking advantage of increased domestic production. The Plan lays considerable emphasis on this aspect of the matter.

In order to make our planning successful, there is also the need of strengthening the planning machinery at the state and sub-regional levels. It is extremely important that detailed attention is paid to crop planning and related agro-based sectors at the local level in the light of the agricultural strategies enunciated in the national and state plans. The employment strategies of planning in India have to be integrated with the Plan schemes and with the production planning approaches. The

Plan lays considerable emphasis on strengthening the capabilities of small and marginal farmers and landless labourers so that the advantages of investment allocations accrue to the needy sectors. This is an aspect to which very high priority needs to be given. The 20-point programme had laid considerable emphasis on land reforms and on the strengthening of the rights of the disadvantaged sections of the rural population. This is also a very important aspect of our Plan strategy.

Today planning has to be viewed as a set of strategies in which we integrate our investment policies and organisational efforts for meeting the basic objectives of the economy, namely, removal of poverty and achievement of a higher degree of self-reliance.

US-Soviet trade and payments

Dr R.S. Nigam and Dr K. Subbarao

Dr R.S Nigam, Professor and Head of the Department of Commerce, and Dr K. Subbarao, Reader, Delhi School of Economics, hail the recent US-USSR grains-for-oil deal which, in their view, is likely to have a favourable impact on world oil price fluctuations. They also conclude that this deal is expected to bring about stability in international prices of commodities and manufactures which will benefit the developing world as well.

UNFAVOURABLE GRAIN harvests since 1972-73 in a number of countries, particularly in the USSR, culminated in significant alterations in the domestic supply of some countries, with a consequential impact on the volume and pattern of international trade in grains. The Soviet Union which cannot count on favourable weather for its wheat harvest, has been exercising a good deal of destabilising influence on the world grain market. During the past decade, the USSR accounted for 80 per cent of the annual fluctuations in world trade in wheat according to the International Monetary Fund. Changes in the yearly production of wheat in the USSR accounted for 60 per cent of the annual fluctuations in total USSR grain production, and accounted for 30 per cent of annual changes in world grain production. As a result, variations in the USSR imports of grain have been particularly significant since the 1970s. For instance, it bought 2.9 million tonnes of wheat from the USA during the year 1971-72, but in the following year, it increased its purchases by a staggering magnitude to 14 million tonnes. As a result, the year-end stocks of world grain fell to an all-time low level; the volume of trade increased dramatically, and international grain prices rose to unprecedented levels. Besides, peripheral changes in the patterns of trade occurred, escalating freight rates and straining oceanic transport facilities. The sharp rise in international prices of grains has had a pervasive influence on the already inflation-ridden economies of the developing world. Further, these developments led to a substantial improvement in the balance of payments position of the grain-exporting countries, notably the USA, while the importing countries sustained adverse impact on their balance of payments. This has resulted in strengthening the US dollar in international currency market.

massive purchases

This destabilising trend in world cereals trade and price situation originally emanated from the massive purchases of grain by the USSR during 1972-73 when that country experienced a disastrous decline of 13 million tonnes in her wheat production. During early 1975, the USSR imported 17 million tonnes of grain, 10 million of it was from the USA. Despite the significant increase in the USA's cereal production during 1975 which was 42 million tonnes greater than in 1974 (see table, p. 16), the world as a whole experienced lower grain stocks than ever before in the recent past. The US suspended further sales of wheat to the USSR since July, 1975, on the ground that unrestricted Soviet purchases of grain had sent prices soaring for American consumers.

US attitude

Towards the close of 1975, however, the USA found that stocks of grain were piling up once again, so that despite increased consumption at home, it was expected that it would end up with higher stocks. Besides, if the Russian harvests are as bad as is now suspected, its purchases must have a destabilising impact on world prices as well as on stocks of cereals. The US attitude thus has gradually moved in favour of resuming exports—but under a regulatory framework. The recent long-term agreement between the USA and the USSR (signed in October, 1975) reflects the necessity of regulating world trade in grains in the interests of exporting as well as importing countries. Thus, the agreement on grain supply takes cognizance of the need to strengthen long-term economic cooperation between the two big countries on the basis of mutual benefits and equality; recognises the importance of grain production for the people of both countries, and the need to stabilise trade in grains between the two countries.

The main provisions of the long-term agreement signed between the two countries in October, 1975 are as follows:

(a) *Grain supplies* : The agreement

commits the Soviet Union to purchase a minimum of six million tonnes of wheat and corn annually for the next five years. It also permits the USSR to purchase an additional two million tonnes annually without government-to-government consultation. An interesting feature of the agreement is that the US agreed *not* to exercise its authority to control shipments; on the contrary the US government agreed to facilitate Soviet purchases, so spaced out as not to disorganise the international market.

prior consultation

The US retained the right to reduce the quantity if the American estimates of domestic grain supplies fell below 225 million tonnes. This is something they have not experienced for the last 20 years, although they came close to it in 1974—an exceptionally bad drought year. If the Russians want to buy more than eight million tonnes in any one year, prior consultation with the American government is required. One of the hopes of this agreement is that in good years the Soviet Union will store some of its imported grain for the lean years that come around with such regularity.

(b) *Oil supplies* : While the grain supply agreement is already signed, only a letter of intent on the oil supplies from the USSR has been received. The agreement is expected to commit the USSR for a period of five years to offer for sale annually 10 million tonnes of crude oil and petroleum products. Under the intended agreement, the US government may purchase the crude oil and petroleum products for its own use or, by mutual agreement, the purchase may be made by US firms. About 70 per cent of the total quantity offered for sale will be in the form of crude oil. The remainder may be petroleum products, in particular diesel oil and naphtha. A portion of the crude oil or petroleum products will be shipped to the USA in the tankers used to transport grain from the USA to the USSR. Further, some portion of the crude oil or petroleum products may be delivered to Europe or other agreed marketing areas. The prices will be mutually agreed at a level which will assure the interests of both the governments. In addition, it is further understood that efforts will be particularly directed towards the fuller application of the technological capability of both countries in increasing energy output from existing sources and in developing new sources of energy.

(c) *Shipping arrangements* : A maritime agreement has also been concluded between the two countries on the establishment of a freight rate for US flagships participating in the carriage of Soviet grain. A minimum US-Gulf-Soviet-Black Sea grain freight rate of $16.00 has been agreed upon—a rate which is significantly in excess of the prevailing market prices.

index system

An index system for determining monthly grain freight rates with a Black Sea freight rate in relation to the index trade (Gulf/Belgium-Holland) has also been agreed to. This relationship has been raised from 1.5 to 1 to approximately 3 to 1. A new credit/debit system has been agreed upon which, in a low market, provides for the payment by the Soviets of a freight rate which is higher than the market rate and adequate to allow a significant number of US-flag-ships to participate in the trade; and in a strong market provides for an offset. When the credit is eliminated, the rates received by the US flag carriers will be determined under the new index system. A higher minimum demurrage rate for the US flag vessels has also been agreed.

favourable impact

The grains-for-oil deal is bound to have a favourable impact on the farming community as well as consumers in the United States, since it provides for regular and orderly sale of wheat and corn to the USSR. It has assured the US farmers a market in the USSR for six million tonnes of wheat and corn a year for the next five years. This additional *assured* demand will assist farmers in making their planting decisions. Besides, it also protects producers and consumers in the USA and other foreign customers from large and sudden purchases of US grain by the USSR without prior consultation. Apart from this stabilisation gain, it provides $4,000—$5,000 million of potential foreign exchange earnings for the USA over the next five years. The secondary and tertiary benefits in the form of additional employment of labour (jobs for transportation workers and seamen), demand for new farm machinery, etc. can also be expected to be significant. The US government also need not expect any more trouble from its dockers, who have been adequately mollified by the better terms for the American ships under the maritime agreement mentioned above. Above all, the agreement has neutralised a great destabilising factor in grain trade in recent years.

TABLE I

Major Exporters of Cereals

(in million tonnes)

	Production of grains			
	1974-75	1975-76	of which wheat	Net exports 1975-76
USA	198	240	98	70—80
Canada	29	33	16	16
Australia	16	15	10	9
Argentina	19	23	6	8
EEC	108	100	39	(—)6

Source: *Economist*—(London), October 11, 1975.

The American negotiators had hoped to be able to make the grain deal more popular by coupling it with the thesis that the Russians were ready to help the USA in covering its oil deficit. The readiness of the USSR to supply 200,000 barrels a day—roughly a third of the total oil imports into the USA per day—should be regarded as a welcome step in international economic relations.

The USSR is the world's largest producer of oil. Soviet production currently averages about 9.5 million barrels per day. Soviet exports are about 2.3 million barrels of oil per day, including some 1.4 million barrels to eastern Europe, and approximately 750,000 barrels a day to western Europe.

The 200,000 barrels a day which Soviets agreed to sell to the USA under the oil deal may be regarded as relatively small when compared to the US current daily consumption of nearly 17 million barrels per day. Besides, the US was somewhat disappointed as the Russians were unwilling to sell oil at a discount price as was expected by the Americans. The US hopes that securing oil from the USSR at a discount price would put pressure on the OPEC. Since the Russians promised to pay current price for their purchases of grain, they presumably did not see any reason why they should be obliging over oil sales to the USA. Although the price turned out to be a sticky factor, the assurance of crude oil supplies from the USSR should benefit the USA in as much as it represents a further diversification of the sources of US oil imports.

The fluctuations in Soviet wheat production culminating in the grains-for-oil deal is bound to have a major impact on grain-importing developing countries as well. Following adverse monsoon during 1972-73, India contracted for the delivery of four million tonnes of foodgrains (mostly wheat) from the international market and was also loaned two million tonnes by the USSR in the following year. Even when allowance is made for trade under special payments arrangements, the impact of foodgrain purchases when world markets are unstable can constitute a serious drain on the foreign exchange reserves of these countries. For instance, the value of India's grain imports ranged between $200 million—$800 million annually in the recent past. The international prices of wheat and corn are likely to be more stable following the US-USSR grains for oil deal. It should be of considerable long-term benefit to the grain-importing developing countries and is likely to have a favourable impact on world oil price fluctuations. This in turn is expected to bring about stability in international prices of commodities and manufactures which will benefit the developing world as well.

WINDOW ON THE WORLD

The emerging world monetary system

H. Johannes Witteveen

This is the text of the speech by Mr. H. Johannes Witteveen, managing director of the International Monetary Fund, at the International Monetary Conference held at San Francisco, USA, on June 17, 1976. Mr. Witteveen is certain that the role of gold as a reserve asset will decrease in the coming years and that the Special Drawing Rights will become an increasingly important element in the monetary system.

TWO YEARS ago I had the pleasure of participating in this Conference—at Williamsburg, Virginia—when I was Chairman of the session at which Jeremy Morse spoke on "*The Evolving* International Monetary System." Today, our positions are reversed. Sir Jeremy Morse is now Chairman, and I am giving the address. The International Monetary System is no longer "Evolving": it is "emerging." Indeed, this is a valid distinction, for recently the Fund's Board of Governors overwhelmingly approved a substantial, and wide-ranging, amendment of the Articles of Agreement of the International Monetary Fund, and this amendment is now before governments for ratification. I welcome, therefore, the invitation to address this conference, and to give my views on the system that is likely to emerge as we build on the foundation of the amended Articles.

significant step

The agreement on amendment marks a very significant step in a process that began nearly five years ago. It demonstrates that the collapse of the Bretton Woods system did not mean that nations wished to abandon the idea of a monetary system based on international obligations, internationally administered. The obligations assumed by members of the International Monetary Fund under the Articles of Agreement lie at the very heart of the monetary system, and the IMF has a unique responsibility for its future development. The new Articles explicitly reaffirm this task in that they require the Fund to oversee the international monetary system to ensure its effective operation.

role of IMF

During the economic and monetary disturbances of the last five years, serious questions have been raised about the role the Fund could be expected to play in the new conditions. But I believe that, during these very years, the importance of international monetary cooperation, with the Fund at the centre, has been amply reaffirmed.

Even during a period when events made it very difficult for members to observe certain of their obligations under the Fund's Articles, there remained a strong desire to return to some agreed international order, more in accord with changed conditions. This gave rise to a number of important developments. The decision on central rates and wider margins attempted to reestablish a framework for exchange rates at a time when members still sought a modified form of par value system. Later, there were the guidelines for floating, and the arrangements for special consultations with members on their exchange rate policies.

These decisions recognised that the behavior of countries with respect to exchange rates should continue to be a matter of international concern. And, of course, as our Chairman well knows, there were the difficult and prolonged negotiations on the reform of the international monetary system in the Committee of Twenty and later in the Interim Committee.

oil facility

The Fund has also responded in a variety of ways to two international economic problems of exceptional severity: the increases in oil prices and the most serious recession since the 1930s. In early 1974, following the increases in oil prices, the Fund took the lead in encouraging members not to adopt policies that would aggravate the problems of other countries. It was particularly important that countries did not resort to the use of restrictions on trade and payments and competitive devaluations. Through the Oil Facility arrangements, finance was made available to assist members in avoiding these mutually destructive measures. At a later stage, in response to the effects of the world recession,

when payments deficits became heavily concentrated on primary producing countries, the Fund enlarged access to its regular credit tranche facilities, and to its facility for compensatory financing of export fluctuations.

payments deficits

The Fund's actions during these years were taken against the background of widespread and substantial payments deficits. The combined current account deficits of oil-importing countries were $52 billion in 1974; they fell to $35 billion in 1975, and some further reduction is expected in 1976. Since the beginning of 1974, net finance made available by the Fund has totalled over $12 billion, including $8 billion under the Oil Facility. In appraising the magnitude of these amounts it has to be borne in mind that by far the larger part of the current account deficits of the oil importing countries was financed, directly or indirectly, by capital export from the oil exporting countries.

The resources made available by the Fund were of crucial importance to members in dealingwith their residual financing problems. For example, the financing provided by the Fund to non-oil producing developing countries that used the Oil Facility was over one-third of the increased cost of their petroleum imports. Moreover, the linking of financial assistance to the avoidance of restrictions and to policies to promote adjustment in members' balance of payments positions has given other creditors more confidence in continuing to make finance available. In these respects, the Fund's role has been similar to that of a central bank maintaining confidence in its domestic financial structure. There is a clear need for an international organization to accept this responsibility.

During the last several years, the Committee of Twenty and the Interim Committee have played important roles in reviewing the policies and actions of the Fund. Since these committees have been at ministerial level, they have provided the international community with a way of coming to grips with, and resolving the real political difficulties that are often involved in the more important decisions of the Fund. In addition to those I have already mentioned, these decisions have included the method of valuing the SDR; the increase in Fund quotas from SDR 29 to SDR 39 billion; the decision to dispose of one third of the Fund's gold and establish the Trust Fund for the poorer developing countries; and, of course, the agreement on the amendment of the Articles. Moreover, on the basis of periodic examination of the world economic outlook by ministers of Finance, a start has been made towards the possibility of greater coordination of economic policies. I very much hope that this too will prove to be an important element in the emerging international monetary system.

These various developments have confirmed the Fund's ability to adapt its policies and practices to changing circumstances. This power of adaptation will be appreciably enhanced under the new Articles, which make provision for a successor body to the Interim Committee—The Council—with terms of reference that include the supervision of the management and adaptation of the international monetary system.

main features

Turning now to the main features of the amendment of the Fund's Articles, I feel we can be very positive about what has been achieved. It is true that the amendment does not include several features of the detailed blueprint for reform drawn up by the Committee of Twenty. There are no new provisions on convertibility or asset settlement, or arrangements for the control of reserve creation and composition. Nor do the new Articles establish rules for ensuring symmetry in the adjustment process. The greater freedom for currencies to float, and the recent strength of the dollar, have reduced concern with these issues. Moreover, the major uncertainties, and the very large payments imbalances in recent years, have made countries more cautious in accepting new obligations. At the same time, the increased flexibility of exchange rates is making a contribution to an improved adjustment process. As greater stability is achieved over time, there may well be a desire for a more structured system. This might require agreement on some of the issues not resolved in the present reform, but this would not necessarily require a new amendment of the Articles of Agreement.

important step

In many respects, the amendment of the Articles is a very important step forward. The new Articles will be complete in themselves. They confirm the role of the Fund in overseeing the international monetary system. They provide a much more workable basis for the Fund's financial operations than the existing Articles. There are far-reaching changes in the field of exchange rates, and the Fund is given a variety of powers and possibilities in this respect. The role of gold in the monetary system is reduced. The role of the SDR is strengthened. And the new Articles provide the Fund with broad enabling powers so that its own role, and the monetary system itself, can respond to changing circumstances within an agreed legal framework.

Gold is removed from the central position it occupies in the Fund's present Articles. This is partly achieved by the abolition of the official price; by breaking the link between gold and the SDR; by prohibiting the use of gold as a peg for a currency under any future exchange arrangements, including a par value system; and by requiring the Fund, in any dealings in gold, to avoid actions that would manage the price in the market or establish a fixed price.

In addition, there will no longer be any obligatory payments in gold by members to the Fund, or by the Fund to members. The Fund may decide to accept gold from members in payment, but only by a decision taken by an 85 per cent majority and at market-related prices. There is, therefore, no guarantee that it will be possible in the future to use gold to settle obligations to the Fund, and certainly no guarantee on the price to be applied to any such payments. In these respects, the SDR will supplant gold in the Fund's operations, since the Fund will be required to accept SDRs from a member in settlement of obligations.

gold auction

The Fund has also decided to sell one third of its existing gold holdings, with one half of this amount being sold at market prices and one half to the Fund's membership at the official price of SDR 35 per ounce. In implementing this decision, the Fund has successfully conducted its first public auction of gold. The new Articles will require the completion of the sale of the agreed amount, and will allow the Fund to decide—by an 85 per cent majority—to make further sales in either or both of those two ways. These present sales, and any that might be made in the future, follow logically from the agreed reduction in the role of gold in the monetary system.

Moreover, under the new Articles, members undertake that their policies with respect to reserve assets will be consistent with the objective of making the SDR the principal reserve asset in the international monetary system. This undertaking has a bearing on members' future actions with regard to gold, and would apply to agreements such as that concluded last August among the Group of 10 industrial countries. This agreements, which will be reviewed two years from its effective date, bars any action to peg the price of gold. It also provides that the total stock of gold held by the Fund and the monetary authorities of these countries will not be increased.

The role of gold as a reserve asset began to change in 1968, when the main central banks abandoned the attempt to keep the market price at $35 per ounce. The abolition of the official price will eliminate the impediment under the present Articles to purchases of gold by central banks at whatever price they see fit, and will thus, to a certain extent, restore to central banks the possibility of making some use of their gold holdings. Nevertheless, with no pegged price, and with private and official stocks greatly exceeding annual production, gold remains a speculative asset. A central bank needing to sell large quantities of gold at short notice would have no assurance that it could do so, and no assurance on the price. For these reasons, gold is losing some of the essential characteristics of an international reserve asset. While I do not forsee the rapid disappearance of gold from countries' reserves, it can no longer play the active role that it played in the past.

principal reserve asset

Lord Keynes, in his proposal for an International Clearing Union, wrote of the need to establish "an instrument of international currency having a general acceptability between nations." The amendment of the Articles continues the process of establishing the SDR as such an instrument, and members are required to collaborate with the Fund in pursuit of the objective of making the SDR the principal reserve asset of international monetary system. To this end, there will be both immediate changes in the characteristics of the asset, and possibilities for further developments. Immediately, there will be far greater freedom for members to engage in transactions by agreement in SDRs, and much wider possibilities for transfers of SDRs to and from the Fund itself. There will also be greater scope for other official entities to hold and use SDRs, and they will be able to engage in a somewhat broader range of transactions than at present. Provision is also made for the Fund to permit new forms of operations in SDRs; for example, loans or grants, thus helping to bring the characteristics of the SDR closer to those of traditional reserve assets.

gradual process

Like the reduction of the role of gold, making Special Drawing Rights the principal reserve asset must be a gradual process, which will be assisted by the changes in the Fund's Articles. It is true that, largely as a result of the considerable creation of reserve currency balances in recent years, the present issue of 9.3 billion Special Drawing Rights is a relatively small proportion of international reserves. But it should be borne in mind that about 15 billion of reserve positions in the Fund are valued in terms of the SDR. Some SDR 11 billion of this total, including SDR 7 billion borrowed under the Oil Facility arrangements, represent the creation of international reserves through the Fund's credit operations. Although their method of creation and their legal attributes are different, in important respects these assets have economic characteristics similar to those of Special Drawing Rights. The SDR unit has also begun to establish itself in a variety of ways: as a currency peg, as a unit of account in international transport, for bond issues, and as a definition of obligations in many international agreements.

It would clearly be advantageous if the proportion of reserves held in the form of Special Drawing Rights were increased. But as I indicated in my speech in Frankfurt last year, it is not necessarily the quantity of SDRs in existence that will determine their importance. These holdings could

well play a pivotal role in a system of international liquidity control, even though SDRs were not — in terms of quantity — the main reserve asset.

Let me now turn to the exchange rate regime. At present, Fund members employ a variety of exchange rate techniques. The currencies of many major countries are floating. But the system cannot be described as one of free floating, for there has been considerable intervention in foreign exchange markets in support of floating currencies. Moreover, the majority of countries have pegged their currencies in some way to other currencies, or to certain composites, such as the SDR or trade-weighted baskets.

freedom of choice

What the new Articles do is, first, to legalise these arrangements by providing freedom for countries to choose their own regime. But, as I have said before, this is a freedom of choice but not a freedom of behaviour. While par values, with narrow margins for fluctuations, have disappeared, the new Articles establish a set of obligations, both for members and for the Fund, that will underscore the importance of the Fund's regulatory role as regards exchange rates. At the same time, they point to the essential relationship between exchange rates and the underlying economic and financial policies of members. For the Fund, this will mean an increase in the attention that has always been paid to these policies. The Fund is also required to exercise "firm surveillance" over members' policies and actions in the field of exchange rates and to adopt specific principles to guide members in these policies. There are, therefore, two "layers" of competence for the Fund members' general policies and those actions that have a particular influence on their exchange rates.

Similarly, members will have two "layers" of obligations. In their economic and financial policies, they must attempt to foster orderly economic growth with reasonable price stability and a monetary system that does not tend to produce erratic fluctuations. And they must pursue orderly exchange arrangements and a stable system of exchange rates, and must avoid manipulating exchange rates to prevent effective balance of payments adjustment or to gain an unfair competitive advantage. In these respects, I believe that the firm surveillance to be exercised by the Fund under the new Articles, and the new obligations assumed by members, represent a significant strengthening of the Fund's powers.

The long rule of the par value system has created the impression that the Fund's power in relation to exchange rates depended solely on the existence of that system. But this was never true. In practice, the ability of the Fund to influence, or even discuss, exchange rates under the par value system was seriously impeded by the very nature of changes in par values. There was the need for complete confidentiality, and considerable diplomacy, in dealing with what were usually large, discrete, changes in exchange rates. And such changes were typically accompanied by financial and political trauma.

flexible system

The more flexible system of exchange rates we have at present also poses difficulties of supervision, and challenges the Fund to explore new analytical techniques when considering exchange rates. Nevertheless, with the removal of the taboos associated with par value changes, we have already seen a greater willingness on the part of Fund members to engage in effective discussion of their exchange rate policies.

Experience so far with flexible exchange rates has shown some obvious, and some less obvious, advantges. Clearly the system goes a long way toward avoiding the currency crises of the past. No par value system could have been sustained with the large imbalances and the wide variations in inflation rates we have seen in recent years. Greater flexibility in exchange rates also enables countries to protect themselves to a certain extent against the inflationary effects of the payments deficits of other countries. At the same time — less obviously — the fact that inadequacies in a government's economic policies can sometimes be rapidly reflected by a marked depreciation in the exchange rate can apparently have a similar psychological effect to a loss of reserves in strengthening policies or making it easier to implement them.

erratic nature

The main disadvantage of the flexibility of exchange rates has been the extent of short-term fluctuations in rates in their sometimes erratic nature. There is a need, therefore, to dampen these disturbing fluctuations and to achieve a more stable system of exchange rates. In this connection, I am not just thinking of intervention, but — perhaps more importantly — monetary policies, and also the extent to which country's general economic and financial policies are conducive to stability. This applies in particular to a continued reduction in the rate of inflation, which will be a difficult but vital task as the current recovery proceeds.

How then do I view the principal features of the emerging international monetary system? The Fund will remain at its center, and be better equipped than in the past to shape its future development in the light of changing circumstances.

The amendment of the Articles, together with the agreed increase in Fund quotas, will enhance the role of the Fund in assisting members to formulate policies for adjusting their external positions without resort to trade and payments restrictions, and in providing the necessary financial assistance to give time for these adjustment policies to work.

I see a reduction in the role of gold as a reserve asset, and I am confident that the SDR will become an increasingly important element in the monetary system.

Finally, it is in the field of exchange rates that we face the greatest challenge. We need to move toward a system that has the resilience and flexibility of the present arrangements without the disturbing fluctuations we have experienced since 1973. A more stable system of exchange rates will depend to a large extent on the achievement of greater stability in general economic and financial conditions, and in particular a continued reduction in rates of inflation. But it will also depend on how imaginatively the Fund, in establishing principles for the guidance of members, and in its surveillance of members' policies and actions, can breathe life in to the exchange rate provisions of the new Articles of Agreement.

Aggressive economic growth ahead

E. B. Brook Vienna

Many industrially developing states, world-wide, needs to come forward rapidly in expertise in industry and commerce if, despite better chances of trade on fair terms, they are not be left as the lesser participants in world commerce

FEW THINGS disappeared so quickly from the European press as the UNCTAD conference in Nairobi. It was banished from publicity as a tiresome chore that had to be attended to and, having been finished at last, is best quickly forgotten. Consigned to oblivion it cannot and, of course, will not be. But the fact that an 80-nation conference in Rome with the purpose of creating a billion dollar fund for economically developing countries to grow more food is currently obliged to extend its session because of disputes over the amount of aid available from the fully industrialised states shows clearly enough that cooperation is still agreed to with, at best, hesitation, if not reluctance and that bargaining rather than a freely helpful approach continues to characterise the thinking of many states. The 13 OPEC countries who have pledged $400 million are obliged to try to shame the western industrialized states into a contribution of the relatively small sum of $600 million and even to offer to acceptance of only $530 million provided the balance of $70 is promised later.

Similarly, the Swiss government, last among the rich nations in pledges of assistance in money and cooperation to the most needy countries, is worrying today lest tomorrow its citizens embarrass it by refusing in a referendum to approve a 200-million franc ($80-million) credit to the International Development Association. All parties in the Swiss legislature have approved the idea but any innovation in Switzerland must be put directly also to the people in the form of a referendum. Swiss voters are notoriously unpredictable, especially on financial outlays.

The Swiss were among the first to reduce the number of their foreign work force when the national unemployment total topped 100 (one hundred!). The fact that the federal budget is being pushed by fast rising public expenditures into the red by more than half a million dollars appears to many likely to make the ultra-cautious Swiss look to economy at home rather than to need overseas.

One hopes this expectation will be belied but the mood in west Europe generally is increasingly self-centred. The reluctant attitude of west Europe contrasts awkwardly at this time with the cordial and cooperative agreement achived in Moscow between the heads of the Indian and Soviet governments which complements the 15-year friendship treaty concluded in 1971.

It is to be hoped that the hesitant and seemingly reluctant attitude of west Europe at the present time will have modified before June 27 when the leaders of Britain, France, Federal Germany, Italy, meet with those of the USA, Canada and Japan in Puerto Rico to discuss world economic problems. The meeting has indifferent precedents this year in the matter of world trade cooperation with fair opportunities for all, in the sluggish progress of the 'north-south' economic conference in Paris, the UNCTAD session and in the food aid conference in Rome. It meets at a time when the USA and West Germany face elections, Japan has fast rising unemployment and the British are nursing a very sick pound. May be ill fortune makes one kind — but it remains to be seen how far fellow feeling has penetrated international politics.

There has been deep alarm in Britain in the past week about the stability of the pound. But that weakness does not change the fact that Britain and west Europe generally forsee the next five years as a period of renewed growth. Economists elsewhere have prophesied for west Europe a period of fast, feverish and of the customary greedy growth, with risk of sharp recession later. The top official economists in west Europe — the Economic Policy Committee of the OECD in Paris — appear to be inclined to agree. The fully industrialised states should aim, they say, at moderating their expansion in the next few years in order to prevent the economic overheating experienced in 1972-73 which preceded the recent recession. There is need, the committee stresses, for adoption of "appropriate policies", monetary fiscal and commercial, in order to achieve 'controlled expansion'. The OECD economists hope to see inflation reduced, rather than riskily increased again by go-ahead growth policies.

difficult policy

It will be a difficult policy for governments to adhere to: the universal urge is for growth, a word that appeals to the energetic, capable, and undoubtedly greedy commercial world of west Europe which has, in one generation, seen not only its old political world influence disappear but much of its opportunity to earn also. It has seen this opportunity taken over in the small but increasing share of the new Asian and African nations whose difficulties in world commerce, in finance and in food production the western industrialised world is now asked to assist. Combined with alarm in some places at the increasing population in these countries, especially in Britain, of nationals of overseas origin, what may be described as the western retreat makes for a basic unwillingness to assist significantly and sufficiently any form of cooperation scheme.

If western Europe were more uniformly an area of economic success it might, very probably, be more mutually competitive but it would feel more reassured in world trade and possibly more basically inclined to cooperation with those from whom it would see very small competitive threat. But west Europe has its economic invalids: Italy at present monetarily almost exhausted, France with an often sinking balance of trade, Britain with a currency so weak it needs support of up to $ 5 billion by the leading industrial countries' Group of Ten which, rather ironically, includes Italy. It is remarkable, and probably encouraging for Britain, how quickly the industrialised states come to one anothers' aid now-a-days—Italy was recently assisted—and how long they often take to assist others less fortunate or basically strong. Spain is another country which recently devalued its currency by 10 per cent, is currently down by 15 per cent in tourist earnings and is reported by its Economics minister to have experienced last year its worst period in 20 years. Spanish economic growth has almost come to a stop and its trade is out of balance by $ 3.47 billion. With an inflation rate of more than 14 per cent Spain is joining west Europe's race for export growth. The poorest in west Europe are still also in a race for multi-bank loans.

Britain is hoping for an 11 per cent growth in foreign trade this year. France is strongly competitive in foreign trade and W. Germany is working hard to improve its very favourable foreign trade figure. Most forecasts for west European states and for the USA are of aggressive economic growth and expanding foreign trade. Some of this growth will be absorbed by growing world economic well being. Even in the least fortunate countries personal income is improving and in many industrialised states it is still rising fairly steeply. The amount of money available for spending has therefore grown and gives more chance for the exporter from whatever land he operates. But the big slice will still go to the big exporter because he has the facilities for training his salesmen of every grade, for research constantly to improve his products, for market research and immediate follow-up that are the essential weaponary of contemporary world commerce.

These facilities are enjoyed not only by the western industrialised states but, to a very marked degree, by the specialist commercial operatives from Europe's communist states as well. They also both give and take bank loans, push forward market and industrial research and, significantly, cooperate industrially with west European states. This week's German-Polish treaty — mainly industrial in content—is very much a case in point. Many of the industrially developing states, world-wide, need to come forward rapidly in expertise in industry and commerce if, despite better chances to trade on fair terms, they are not to be left as the lesser participants in world commerce.

Eastern Economist 30 Years Ago

JULY 5, 1946

Whether India is nearer to independence or not, we cannot tell. But we can assert categorically that the manner in which this country has been treated by its (British) Finance members, controlled by the India office, in regard to its dollar balances is a measure of our worse-then-colonial position. Whatever justification might be found for the setting up of the Empire Dollar Pool during the war, there is not shred of excuse for its continuance. If it is to be continued, there should have been some apology or pretence of excuse offered therefore. Not a single political party in India has agreed to its continuance after the war; India's current balances are taken away unilaterally by the British Government's fiat. If this is not colonialism in the economic sphere, one would like to know what else it is?

Be that as it may, the country has an even more legitimate complaint. Figures about the dollar earnings of India since the war have yet to be vouchsafed. Sir Archibald Rowlands in his last budget speech contended himself with a summary statement which was intended to mystify and cloud the issue rather than to enlighten.

Interview : Vinod Parikh

A challenge every day in STC

The State Trading Corporation (STC) of India has completed 20 years. In an exclusive interview with S.P. Chopra, Acting Editor, *Eastern Economist*, the chairman of the STC, Mr Vinod Parikh, said that in 1975-76, the exports of the corporation had scaled a new peak. As against the target of Rs. 730 crores, the STC had succeeded in exporting goods worth Rs 760 crores. He also emphasised that the corporation had been making efforts to increase the export of a number of new products.

Q. *The turnover of the State Trading Corporation has almost doubled in two years. In your opinion, what were the main reasons for such a fast expansion in the operations of this enterprise?*

A. The reasons for this rapid and substantial growth were the increase in our trade with west Asian and Gulf countries coupled with exports of such items as sugar and leather. Sugar was our biggest item of export. In 1975-76, sugar exports alone were of the order of Rs 470 crores.

Q. *To what extent was the rise in the prices of export commodities responsible for the fast expansion in the turnover of the STC?*

A. The increase in exports in 1974-75 was mainly due to inflation in prices but 1975-76 was a different story. Expansion in volume was the main reason for the increase. For example, the quantity of sugar exported in 1975-76 was about 1.2 million tonnes as against 600,000 tonnes only in 1974-75. Thus, the 1975-76 increase in exports was due to volume while 1974-75 rise was mainly due to price rises. In the case of leather also, there has been substantial increase in quantity.

We consider finished leather to be a new item with a high growth potential in the coming years. In the case of leather, there has been both physical growth and value-added growth. Whereas in the past our export consisted mainly of semi-processed hides and skins, now there is an increased proportion of finished leather; also new inroads are being made in the exports of uppers, shoes and garments. And we are trying to improve the unit value per shoe by exporting to fashion-conscious advanced countries. Thus, we are trying to get more rupees per pair of shoes.

Q. *That is indeed creditable. But let us turn our attention to sugar for a minute. This commodity was not on your export list a few years ago, and then it came with a bang and inflated the export performance of the STC beyond expectation.* If the **fortuitous** *export of sugar is ignored, how does the export performance of the STC fare? Was the rate of rise in exports substantial?*

A. In our weekly deliberations, we always look at figures minus sugar and minus leather. This gives us an idea of growth in other items which are small today, but which we hope will be big one day. Let me tell you that the export of non-canalised items was Rs 36 crores in 1974-75, which rose to Rs 62 crores in 1975-76. And we are budgeting for a turnover of Rs 130 crores in 1976-77. Thus, the STC is planning to increase the export of non-canalised items by more than 100 per cent in one year. This list includes (a) Army software for the west Asian countries, (b) Plywood, door-handles and other goods needed for the construction industry because of the housing boom in west Asia, (c) Molasses and alcohol, (d) Thermos flasks, (e) Cosmetics, (f) Toilet articles. We have also sold marble to Australia. This was a totally new item. Also we sold gramophone records to Hungary; they did not purchase Indian gramophone records before. We are trying to build up new business in such items.

Q. *The list of non-canalised items is long; the individual contribution of each item is small. What is their share in the total turnover?*

A. Introducing a new item always takes time and values are always small. But once you have captured a particular market for a particular item, and if you sustain them well, they could in due course grow into a large volume of business.

Q. *You have referred to the success you had in west Asian markets. In the totality of your export operations, how important is this area?*

A. Roughly, the share of this area was one-third of the total. Surely, the potential for further expansion is large in west Asian and African countries. For instance, our subsidiary, the Projects and Equipment Corporation, has a big market in these areas for engineering goods and turn-key projects.

Q. *As far as I remember, the STC was set up 20 years ago to service our trade with the east European countries with which we had entered into rupee-payment arrangements. How important is this area in the turnover of the STC?*

A. These countries occupy an important place in the trade turnover of STC. Our trade with these countries is growing year after year. Our trade with the Soviet Union alone will show a substantial increase in the five-year agreement that has been concluded with them recently.

Q. *What is the share of this area's trade with the STC?*

A. The share is small in so far as the STC is concerned because sugar—the major item—was not exported to these countries.

Q. *Do you think that in the coming years, our trade with the east European countries in rupees will continue to grow?*

Will our trade with them in traditional and non-traditional items continue to expand or are you finding some resistance in these countries?

A. The potential of growth in trade with the socialist countries of east Europe is very great. The trade with these countries provides us a relative insulation from the fluctuations which occur in the free market economies. Our trade with the socialist countries is assured according to the trade plans. The demand and price fluctuations have little impact on them as is the case with our trade with non-socialist countries. If we wish to increase our trade with them, we will have to enter into long-term agreements with them so that both sides are assured of their supplies. Such long-term relationship could be mutually beneficial.

Q. *I have been to some of these east European countries where the complaint usually heard is that we really do not make any serious effort to market our products through fairs, fashion shows and exhibitions. Do you think in view of the peculiar mechanism of trade with these countries, these marketing techniques can be of much help?*

A. Fairs and exhibitions are only one facet of the many ways in which trade can be improved. We do participate in some fairs, but the marketing procedures we have adopted so far have been generally helpful.

Q. *The individual exporters in this country have poor knowledge of the markets to which they wish to export their products—both in regard to the products and the peculiarities of the markets. Has the STC built up any machinery whereby, as the largest single exporter of the country, it is able to keep informed about the trends abroad?*

A. We have two types of activities in this field. First, there is the market intelligence system through our own foreign offices, agents, associates and business connections. On the basis of information provided by them, we make periodic studies of different markets as to how they would react, and whether the prices are likely to move up or down etc. Secondly, we have 22 foreign offices which have recently been strengthened with additional staff. Not only some other public sector undertakings but also the private exporters make use of the services provided by our offices.

Q. *Establishing contact with foreign agencies is only one aspect, the other is the constant flow of information from abroad regarding the variations in prices of a variety of goods which are currently being exported or which you are planning to market in foreign lands. What steps have you taken to be fully seized of the trends abroad?*

A. The foreign offices plus the subscriptions we make to various reports and publications, communications from our customers and suppliers, provide the assessments of the situation. All this information is processed in the centralised market intelligence division that we have in this office. The information coming in from the various offices is pooled and processed. The dealing departments study such reports and then arrive at their conclusions as to what is happening and what might be possible in a given situation.

Q. *What type of people man these 22 centres? What is their background? What experience have they in trading? Are they researchers or business-oriented trained officers?*

A. They are mainly marketing experts with specialised knowledge in certain specific areas wherein we plan to expand our operations. For example, if we find that export prospects in leather products in one area are good—in England, France and West Germany—we try to put a man in that area who is conversant with the subject of finished leather and leather products. But they are essentially marketing experts who are all the time studying price and demand trends in the region in which they are posted and inform us of the possibilities. They also have a general background of the STC's work, methods and procedures so that there is not only an institutionalised contact but also personal contacts between an officer abroad and different officers in India.

Q. *The year 1975-76 was a very good year for the STC as it almost touched the level of Rs 1,000 crores in exports. Have you worked out your plans for the current year? What is your target for exports in 1976-77?*

A. Leaving sugar out from our target of exports for the current year, STC will increase its export of practically every item. For instance, in agricultural commodities including foods, oil and fats, general products, cement, salt — the exports of these commodities are expected to increase. This year we are aiming to export nearly a million tonnes of cement against 400,000 tonnes shipped last year. Textiles will demand increased attention particularly jute manufactures because this industry has lately been in trouble. We are planning to concentrate our attention on ready-made garments which has immense prospects. We have good associates in the field of art silk, man-made fabrics etc. Army software is another line where we expect an improved turnover — mainly blankets, mosquito nets, tents etc. Development exports including construction materials are also engaging our attention. We are also doing business in silver. General consumer items are also on our list of exports. In the field of pharmaceuticals, through our subsidiary CAPCO, we are assisting a number of small and medium-sized manufacturers to manufacture such drugs and formulations as we have a ready market abroad. Very soon, a delegation is visiting us from Libya to see the progress made by India in this industry.

Q. *You have been in the STC for three years. What was the biggest challenge that you faced in this enterprise during this period? Was it in the field of men, money or materials?*

A. By the grace of God, this company does not have any monetary problems. We have very good financial resources which have improved over the years. The scale of our operations has increased in the last three years, and in order to cope with this expansion, we have established a new subsidiary — CAPCO, this year. We are constantly improving the management at various levels. In a way, we have to face a challenge every day in the STC.

Q. *Let me put this question in a different way. In the past three years, there might have been some sleepless nights for you. If there were any such times, what were they due to?*

A. I work hard and for long hours and I have never had any problems of sleep which I do soundly.

Q. *You are certainly a lucky chairman of an enterprise having a turnover of Rs 1000 crores, with no headaches and sleepless nights. Good luck to you.*

A. With team-work and good human resources of the STC, it is not too difficult.

Q. *What has been the most satisfying experience in your association with the STC?*

A. I am basically a trader and the experience I am gaining in STC is most satisfying. The range of our operations is so vast and diverse that there is something new to learn every day. Last year, we had fixed export target of Rs 730 crores but came December 1975 and we were lagging far behind. It seemed almost impossible to achieve the target. But we did not accept defeat. At the weekly communication meetings with all our senior managers — some 30 people round a table—I used to repeat like a gramophone record that the target had to be met—it did not matter how much effort was involved. There were a few who were not totally convinced. To move up from Rs 475 crores to Rs 730 crores was no mean task. With the cooperation of all concerned, however, we showed record results. We shipped 200,000 tonnes of sugar in the month of March 1976 alone. No less than 25,000 tonnes of oils were shipped in the month of March alone which was practically a complete year's turnover in previous times. A number of records were created and I slept happy and contented on March 31, 1976 when our provisional annual results were out on time. The export tally had finally risen to Rs 760 crores against the original budget of Rs 730 crores.

Q. *You have just mentioned the export of castor oil. If my memory does not fail me, there was some rumbling about the price which you got on your castor oil exports. Will you throw some light on this deal which came in for some criticism?*

A. It is very easy to be wise after the event. You have to make a decision each day and there are as many occasions of markets having fallen as of markets having risen after the deal has been concluded. To some extent, that accusation—our having sold castor oil in a hurry—came from vested interests. I dare say that if we had waited we would have got a higher price but I do not think we have done badly given the peculiar circumstances of this case. By the end of the year, we will have marketed a much larger quantity of castor oil at, what I hope, will be better than average prices achieved so far.

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Manager

BOOKS BRIEFLY

Reviewed by
Academicus

Evolving environmental balance

Losing Ground: Erick P. Eckholm; W. W. Norton & Company Inc., New York; pp 223; Price $ 3.95.

Taxation of Agriculture in India: P. K. Bhargava; Vora & Co. Publishers Pvt. Ltd., Bombay; pp 111; Price Rs 20.

Co-operative Democracy in Action: O. R. Krishnaswami; Somaiya Publications Pvt. Ltd.; pp 271; Price Rs 40.

Accumulated Deficits of Public Enterprises: J. Satyanarayana; Institute of Public Enterprise, Hyderabad; pp 317; Price Rs 40.

Agricultural Manpower and Economic Development. B. P. Ratnawat; Popular Prakashan, Bombay; pp 290; Price Rs 50.

Human Resources Development Planning: M. M. Mehta; The Macmillan Company of India Ltd.; pp 192; Price Rs 55.

BOOKS SUCH as *Losing Ground* dealing with environmental stress and world food prospects get published but rarely. The perception born out of sympathy for humanity with which Erik P. Eckholm has written this book is rarer still in these days of gingoism and intense national rivalries reminiscent of the early mercantalist period. No wonder the book provides extremely absorbing reading material from the first page to the last.

Coaxing enough food from the earth has traditionally been guided by a certain simple logic: plough more land, intensify labour, refine techniques and the supply of food will grow commensurably. But at present millions of individuals and sometimes whole countries are learning the hard way that more work does not necessarily mean more food—that it may mean fatally less.

Though the term, 'environmental crisis' has become popular in journalism and politics within the last decade or so as a consequence of the visible spread of acrid air and poisoned water, it is much less realised that "a far deadlier annual toll, and perhaps an even greater threat to future human welfare, than that of the pollution of our air and water is that extracted by the undermining of the productivity of the land itself through accelerated soil erosion, creeping deserts, increased flooding, and declining soil fertility. Human race—out of desperation, ignorance, shortsightedness, or greed—is destroying the basis of their own livelihood as they violate the limits of natural systems."

It is not at all surprising that the principal victims of these trends are the world's poor who in their quest for food and fuel are being forced by circumstances and institutions beyond their control to serve as agents of their own undoing. It so happens that the poor are damaging the environment around them even more than the rich.

According to the author, the basic arithmetic of world population growth reveals that the relationship between human beings and the environment is now entering 'an historically unique age of widespread danger'. It should strike terror in our hearts that the number of humans reached one billion about 1830, nearly two or three millions of years after the emergence of human being as a distinct species; the second billion was added in one hundred years; and the third billion in just thirty years. In 1975 the world population reached the mark of four billion. At the present rate of growth of population, the fifth billion of population will come in about thirteen years and the sixth billion in just ten years after that! Seldom does the human imaginations try to translate these inconceivable abstractions into concrete terms of requirement of food, clothing and shelter for this rapidly expanding human sea.

This book makes an attempt to spotlight the self-defeating efforts of the human race to expand food supply to feed itself.

frightening problem

There has been certain awareness of this frightening problem at present. But analysts are finding many culprits depending upon their personal prejudices. For example, the economist sees failure to generate adequate capital for raising productivity; the sociologist sees tradition-fixed cultures incapable of assimilating the requirements of modernisation or socio-economic structures that compel the poor to live recklessly; the political scientist is apt to stress the absence of administrative capacity to implement social changes or outline the power relationships that prevent the poor from taking control of their own destiny.

According to the author, while all the above explanations contain certain elements of truth, an additional perspective that in many ways subsums them all—an ecological view that blends the study of human beings' place in nature with that of their place in society—is almost always overlooked. The author has emphasised that 'Ecological degradation is to a great extent the result of the economic, social and political inadequacies noted above: it is also, and with growing force, principal cause of poverty. If the environmental balance is disturbed and the eco-system's capacity to meet human needs is crippled, the plight of those living directly off the land worsens, and recovery and development efforts—whatever their political and financial backing—become all the more difficult."

sterile debate

The sterile debate is going on among the narrow-minded experts regarding attacking this problem. Innundate the poor with birth control devices and development prospects will soon improve, says one group of experts. Concentrate on social reforms and economic progress, say others. But unfortunately most people forget that "these issues form a circle, not a square, and thus have no distinct sides. The only alternative at this stage of human history is to simultaneously meet this quandary at every point along its circumference, in an all-out effort to root out causes of poverty, whether social, cultural, religious or political." The author has emphasised that environmental deterioration and ecological ethic require direct attention in their own sight. In fact all our efforts in various directions to root out mass poverty will be frustrated, if attempts are not made at the time to restore and maintain ecological balance in the universe.

In the face of this, one is ghast at the stupendous neglect of ecological environment that is taking place and the consequent growing imbalance—the reckless and rapid deforestation, encroachment of advancing deserts, deterioration, of mountain environments, salting and silting of irrigation system, threat to world fisheries and general soil erosion and deterioration. The author has warned that if the current trends continue, there may not be a sudden cataclysmic global famine, but "chronic depression conditions for the share of human kind, perhaps a fourth, that might be termed economically and politically marginal." If these trends continue the author predicts that "Marginal people or marginal lands will slowly sink into the slough of hopeless poverty. Some will continue to wrest from the earth what fruits they can, others will turn up in the dead-end urban slums of Africa, Asia and Latin America."

Losing Ground by Eric P. Eckholm is a remarkable and thought-provoking book which will certainly give a new direction and vision to our thinking and will convince us that every one must and can play his part in maintaining environmental balance, which if neglected any further, will undermine the very foundations of human existence. We in India should take special note of this because India happens to be one of those marginal lands which are rapidly approaching the dead-end.

AGRICULTURAL TAXATION

P. K. Bhargava in his book *Taxation of Agriculture in India* has made an attempt to analyse the role of agricultural taxation in the process of economic development of India. He has also looked at the problem of taxation of agriculture in India from the point of view of overall equity within the different sectors of the Indian economy. As there appears to be sometimes a controversy as to whether the agricultural sector in India should be additionally taxed for mobilising more resources for investment purposes or whether things should continue as they are so that agriculturists under lighter tax burden would be provided adequate incentives to accelerate the pace of green revolution the signs of which are visible in many states, the author has thrown adequate light on this issue in this small but exhaustive book on the subject.

major sector

Theoretically it is accepted that in the initial stages of economic development of a backward country, agriculture happens to be the only major sector of the economy where surplus must be generated for investment purposes. According to Arthur Lewis, "If it is desired to accelerate capital formation at a high rate when profits are still a small proportion of national income, there is in practice no other way of doing this than to levy substantially upon agriculture, both because agriculture contributes 50 or 60 per cent or more of the national income and also because levying upon other sectors is handicapped by the fact that it is desirable to have these others expand as a part of the process of economic growth."

Indian economy is yet primarily agricultural contributing about 45 per cent of the national income and providing livelihood for nearly 70 per cent of the population. And therefore, according to the author, it is unfortunate that despite its strategic position, the agricultural sector has not been making adequate contribution towards the development efforts of the country. According to Raj committee report, direct agricultural taxes during the period 1967-68 to 1969-70 formed only .94 per cent of the income orginating in the agricultural sector. According to that report, agricultural sector remains inadequately taxed. This has resulted in relatively heavier tax burden on the non-agricultural sector, with the consequence that fresh inequities between the agricultural and non-agricultural sectors of the Indian economy have resulted, apart from the inequities within the agricultural sector itself.

The two most important taxes paid by the agriculturists are land revenue and the agricultural income tax. Their combined contribution since 1951-52 to 1965-66 has been less than two per cent of the national income from agriculture. Since 1966-67, these two taxes have been contributing to the national exchequer less than one per cent of the total agricultural income, the share at present being as little as 0.7 per cent. In view of the growing financial requirements of the states, it has become urgent that the structure of land revenue and agricultural income tax be suitably modified so that the state gets from them adequate revenues to meet their increasing developmental expenditure.

important tax

At present land revenue is the most important tax on the agricultural sector. However as at present constituted, it is thoroughly a bad tax as it provides no exemption limit, is levied at the flat rate on both large and small landholders and as it does not take into account changes in income, output or increases in prices of agricultural commodities. In consequence its share in the total revenue from all the state taxes is only about six per cent. According to the author, it is not easy for the state governments to revise land revenue rates both because of their past settlements with the agriculturists and also because state governments have shown lack of political courage to increase tax burden an agriculturists who have formed a strong lobby in state legislatures. The author therefore has suggested a graduated surcharge on land revenue. According to him, sucn a scheme will get support of nearly 74 per cent of the rural households owning very small pieces of land and will at the same time enable the state governments to raise substantial resources from the agricultural sector. The author has also opined that as a measure of fiscal reform taxes from the agricultural sector should in the long run be collected in kind. Such a collection will ensure built-in flexibility in the tax structure of the states and at the same time enable the state governemnts to build buffer stocks of agricultural commodities whicn can be used to check inflationary pressures in the economy.

Agricultural income tax is another important tax levied on the agricultural sector. But it has also proved to be an ineffective fiscal instrument for tapping agricultural resources partly because relatively richer states like Punjab and Haryana have not imposed it and partly because it is levied at very low rates and is inadequately enforced in states where it is being levied at present. No wonder the share of agricultural income tax in the total revenue from all the state taxes is as low as 0.5 per cent at present. It may also be noted that the three states of Assam, Kerala and Tamil Nadu account for 70 per cent of the yield from this tax.

resource mobilisation

To make the agricultural income tax equitably and an important fiscal instrument for resource mobilisation, the author has suggested full integration of agricultnral and non-agricultural incomes in place of their present partial integration. According to the author, there is no need to amend the constitution to bring about this full integration, if a national consensus emerges on the part of the states to surrender their right of taxing agricultural income to the union government as they have done in the case of estate duty on agricultural land. Such an arrangement will not adversely affect the economy of the state as the entire net proceeds from agricultural income tax will be distributed among the states on the basis of origin of agricultural income in each state. The author is of the opinion that on balance, the states will be benefited by this arrangement as the union government has the necessary experience, administrative machinery and talent to administer the tax. To overcome any possible difficulty that might arise, the chief ministers of states might discuss that matter at the National Development Council so that a national consensus may emerge regarding policy matters relating to taxation of agricultural income so that none of the state governments gets an upper hand in providing relief to the agriculturists on political grounds as it is happening at present.

increased capacity

There is no doubt that the taxpaying capacity of the agricultural sector, especially of big landholders, has increased considerably during the era of planned economic development. While the agricultural sector pays much less as compared with the non-agricultural sector, its economic condition has improved considerably due to increase in income owing to factors such as steep rise in the prices of agricultural commodities, increase in productivity of agriculture due to agriculture-oriented expenditure policy of state governments, and on account of huge subsidies which the sector has been getting in respect of seeds, fertilisers, water and cooperative credit. There is therefore a very strong case for additional taxation of the agricultural sector. The author has suggested that this should be done by immediately introducting graduated surcharge on land revenue, full integration of agricultural income with non-agricultural incomes, imposing additional cess on commercial crops and betterment levies, and raising substantially irrigation rates which at present do not cover even the working expenses of most of the irrigational projects. Also, livestock breeding, poultry and dairy farming should also be brought within the additional agricultural tax net.

One additional gain of raising agricultural taxation and bringing it to the level of taxation of non-agricultural incomes would be that black money would not be in a position to masquarade as money derived from agriculture.

There is no doubt that P. K. Bhargava has made out a valid case for additional agricultural taxation and, what is more important, has put forward practicable suggestions which can be immediately implemented. The government can take advantage of the mood of the people generated by the emergency and implement this scheme of rationalisation of agricultural taxation which has for long been delayed to the great detriment of the national economy.

COOPERATIVES

Co-operation, as is well-known, is a voluntary and democratic association of human beings, based on equality (of control and opportunity) and equity (of distribution) and mutuality for the promotion of their common interests as producers or consumers. One of the fundamental underlying principles of cooperation is it democratic management and control.

But how far is the management of cooperative societies in India really democratic? Where is the real centre of power in a cooperative society? Does the control really rest in the membership as such and not in the hands of a particular sectional group within the membership? What is the relationship between the board of management and members of a typical cooperative society? Is there proper division of responsibilities between the controlling body and the executive body, so as to ensure democratic management? How does the system of government nomination of board of directors of cooperative societies affect democratic control of cooperative societies? How do gevernment and Reserve Bank controls over cooperative societies affect their internal autonomy? These are all problems of democratic control in the management of cooperative societies and *Cooperative Democracy in Action* is concerned with them.

This study, which was awarded the Ph.D. degree of the Karnataka University, was undertaken to know how cooperative democracy works in practice. The author, Dr O.R. Krishnaswami has confined this study to the cooperative agricultural credit societies which have by and large come to dominate the cooperative field in India. What is more significant, on the basis of his analysis of the above problems, the author has made certain suggestions for ensuring effective democratic control in the cooperative agricultural credit system.

As regards democratic control in cooperative societies, the author has found that the social structure of Indian villages in tradition-bound and caste-ridden. The hierarchical and segmented social structure of Indian villages and their inequitable economic system are not at all compatible with democratic values of equality and equity. People's loyalties to their own local organisations, to their castes and to related families are rather a liability than an asset to the development of democratically run cooperative societies as well-knit organisations. The author has rightly emphasised that cooperatives need new types of ties and loyalties which cut across traditional, communal and religious loyalties.

unsatisfactory working

On account of the existence of the above background, the author found the working of cooperatives at all levels very unsatisfactory. The conducting of the annual and weekly meetings is most unsatisfactory. Only a very small number of members attend the meeting and that also under pressure of somebody and without knowing anything or much about what is going to take place in the meeting. Most members hardly participate in the meeting, nor do they show any interest in the proceedings. Most of the regulations get passed unanimously at the behest of some powerful group which has a dominant position in the village or in a particular caste. The same group of persons get re-elected again and again because of the general apathy, indifference, ignorance and inferiority complex of most of the members. This being the findings, the author has rightly concluded that "The findings lead to the inevitable conclusion that democracy exists in the formal constitution only, but not in actual practice... The ignorance of members, their socio-economic disparities, the societies' dependence on central banks for funds, the mechanical way of conducting business—all these sap the vigour and vitality of democracy and make it just a copy book maxim."

influencing factors

What are the factors influencing democratic participation in cooperative societies? The author has examined fifteen different variables such as personal, cultural and socio-economic factors and has made an attempt to establish correlation between these variables and democratic participation. He has rightly found that "caste, formal education, social participation, occupation, socio-economic status, shareholding period of membership, knowledge of the structure and working of the society, member identification, business participation and member satisfaction were positively associated with democratic participation." His finding leads to the conclusion that education, social participation, member's stake, length of the period of membership, knowledge of cooperation, knowledge of one's own cooperative society, business participation and member-satisfaction promote democratic participation, while on the other hand illiteracy, caste hierarchy. occupational heterogeneity, socio-economic disparity, lack of enlightment, lack of identification, lack of loyalty and lack of satisfaction consequent on unsatisfactory service rendered by cooperative societies retard democratic participation and management.

On the basis of his analysis the author has made suggestions to accelerate democratic participation in cooperative societies at all levels. He has stressed the role of education in this respect. He is of the opinion that "continuous, persistent and systematic educational efforts should be made in order to enlighten the members, to develop a social vision in them, to build a feeling of awareness and pride in cooperative membership, to motivate them to involve themselves in the affairs of their cooperative, to make them realise the importance of their attending membership meetings and participating in the democratic decision-making process, to keep alive in them the sense of belonging together and the cooperative spirit and to develop leadership among them." The author believes that powerful educational efforts are necessary to break the barriers of the hierarchical and segmented social structure of villages and to develop in people a sense of equality, fraternity, solidarity and democratic values and outlook. The author wants that every cooperative society including primary cooperative societies should undertake to play this educational role without which democratic participation in cooperatives cannot be encouraged and fortified.

'economic miracle'

In the beginning of the present century when cooperatives were introduced in the country for the first time, it was almost thought uncritically that 'an economic miracle' was at hand. But it must be realised that no institution, however sound theoretically, can function in an ideal way in an uncongenial social and political situation. All the social evils characterising the society are bound to get reflected in any organisation including cooperatives. This has happened in all countries including Britain. A recent report on the operation of cooperatives in the United Kingdom states: "The old style pure cooperator is becoming rarer....his place is being taken by the cooperator who is also active in politics....*the function of cooperatives* as private microcosms of ancillaries to the national democracy is much muted and weakened at the present time."

There should therefore be no wonder that cooperatives in India have proved a dismal failure as a way of life which they were expected to be. It would be naive to expect a social and political revolution through cooperatives which have become a tool in the hands of politicians these days and hot-bed of political intrigues. Only to the extent society improves and gets rid of its class, caste, status and other distinctons and extreme disparities, would democratic way of life be reflected in the cooperatives. And yet an attempt must be made to break the vicious circle and from that point of view primary cooperative credit society can be a first step where, as the author has emphasised, primary lessons of democratic way of life can be taught through intensive education.

PUBLIC SECTOR DEFICITS

Accumulated Deficits of Public Enterprises is the result of a research project undertaken by the author and sponsored by the Indian Council of Social Science Research. The author's main aims in undertaking this research study were: to study the financial performance of the central government public enterprises, to analyse the reasons for the poor performance of many of the public enterprises, both empirically as well as on the basis of the report of the parliamentary committees, and what is more significant, to suggest measures to improve the performance of the public enterprises.

The author has confined his study to the central 'running' public enterprises. Enterprises under construction are naturally excluded. Also excluded from the study are the financial institutions and promotional and developmental undertakings. In other terms, the study covers only the running commercial and industrial undertakings of the central government. The study is confined to the losing undertakings only as the main focus of the study is on the performance of those enterprises which have accumulated deficits. The number of enterprises which had not accumulated deficits was 26 as on March31, 1969. The study in depth is attempted in so far as these 26 enterprises are concerned.

capital wiped out

The author has found that the total accumulated deficits of these 26 enterprises amounted to Rs 339.42 crores on March 31, 1969. It is seen that there were a few enterprises which had accumulated deficits exceeding the equity capital which implies that the entire equity capital was wiped out because of the continuous losses incurred by those enterprises. About a third of the enterprises had accumulated deficits of more than 50 per cent of the equity capital, whereas enterprises which had accumulated deficits of more than 20 per cent of the equity capital accounted for about two-thirds of the total number of enterprises studied. The one enterprise that contributed substantially to the net accumulated deficits was the Hindustan Steel Ltd. The Hindustan Steel Ltd, the Heavy Electricals (India) Ltd, and the Heavy Engineering Corporation together accounted for about 86 per cent of the total accumulated deficits of the 26 enterprises. Whether we consider the profits in relation to capital or in relation to sales, the picture is disappointing. Also, many of the enterprises were having very low amounts of cash in relation to current assets. Substantial increases in inventories and consequently locking up of capital resulted in a decrease in the percentage of cash to current assets. Most of the losing undertakings appeared to be in a bad financial posi-

tion as they had less than 25 per cent of cash to current liabilities. It was a matter of serious concern that most of the enterprises were not in a position to meet their quick liabilities from their quick assets, because of high inventories and also partly because these enterprises felt no difficulty in getting their working capital from commercial banks.

According to the author, some of the important factors responsible for the accumulated deficits of these 26 enterprises were delays in project commissioning, rising project costs due to continuous rise in prices, under-utilisation of the installed capacity, heavy expenditure on townships, heavy inventories, and unrealistic estimations about personnel which in most of the enterprises far exceeded the necessary number of people required.

significant part

The various recommendations which the author has made to reduce deficits and if possible to enable enterprises to make profits form the most significant part of the book.

He finds that the targets of surpluses have been fixed for the public sector as a whole by the Planning Commission. The author rightly believes that it is necessary that targets of surpluses should be set for the individual enterprises in consultation with them and by taking into consideration the nature of socio-economic objectives of the enterprises. This will help in fixing realistic targets of surpluses and each enterprise will know what its commitments are.

The central government may give cash grants to those concerns which have accumulated losses, and which are likely to improve their profit prospects in future. Another way of helping out the losing concerns will be to reconstruct their capital structure including writing off the capital to the extent of over-capitalisation. Still another way would be to declare 'interest holiday' for the losing concerns until they begin to make profits after overcoming their difficulties.

Some of the enterprises suffer from under-utilisation of their capacities because of lack of demand. The author therefore has suggested that there should be systematic and scientific market surveys so as to get proper assessment of demand before a project is conceived and its size determined. Many of the enterprises have been characterised by delay in commissioning of their projects mainly because of governmental delays in decision-making. The suggestion is made that the government may constitute a committee of secretaries of the concerned departments to expedite the setting up of projects in the public sector, once they are planned and conceived by the government. Also a committee of technical and financial experts who may have gained experience in construction of projects before may also be constituted to screen and advise on the projects which are conceived by the government.

scientific assessment

The author has suggested that immediately after a project is planned, the government should name the chief executive so that he may be associated with the project right from the stage of planning through its various stages of construction. In order to avoid employment of excess personnel, big enterprises may be equipped with industrial engineering departments to make scientific assessment of required personnel. For all the enterprises estimates of personnel required must be worked out by expert bodies such as the Institute of Applied Manpower Research to help them in fixing the norms of personnel.

According to the author, most of the enterprises do not have scientific classification and assessment of their requirements of materials. The result is that these enterprises have built up considerable amounts of inventories. In order to avoid this, public enterprises must undertake scientific classification and assessment of their inventories. Materials management in these enterprises requires careful attention.

The losses on townships generally formed significant part of the total accumulated losses of the public sector enterprises. The author is of the opinion that these enterprises are unduly burdened with the losses because of these townships. He therefore has suggested that the government may subsidise such enterprises to the extent of the losses that they incur on townships,

Though many of the losing enterprises have now overcome the teething troubles and have started making profits, the suggestions made for the improvement of public enterprises are still relevant and hold good. Since this study was completed, the public sector has expanded considerably. Thus at the end of March 1975, there were 129 enterprises with a total investment amounting to Rs 7,261 crores. Many of the enterprises still suffer from the defects referred to by the author and therefore there is great scope for their improvement along lines suggested by him.

SURPLUS MANPOWER

One of the major problems faced by many developing countries is that of *surplus population*. According to one estimate, at present nearly a quarter of agricultural population in India is surplus to requirements in the agricultural sector. In absolute terms this means that there are in India at present about twenty million permanently unemployed people in the agricultural sector. Though superficially they appear to be employed and doing some work or other connected with agricultural operations, in effect they are unemployed in the sense their removal from the agricultural sector will have absolutely no adverse effect on agricultural production of the country. This constitutes what is known as 'disguised unemployment'. Is there a way of using this surplus agricultural labour in some constructive and really productive way and make them contribute to the process of economic development in the country?

B.P. Ratnawat in his *Agricultural Manpower and Economic Development* has made an attempt "to test empirically the famous models of Prof Ragnar Nurkse and W.A. Lewis regarding mobility of surplus agricultural labour to the non-agricultural sector and its antithesis by Prof A.M. Khusro, namely economic development with no population transfer." The author has concentrated his attention on the state of Madhya Pradesh dividing it into two sectors, namely the agricultural sector and the non-agricultural sector and testing the Nurkse-Lewis and A.M. Khusro models regarding mobility of surplus agricultural labour and its possible contribution to capital formation and to the process of economic development.

transfer of population

In the Nurkse-Lewis models surplus agricultural labour is shifted to non-agricultural sector where it is supposed to contribute to capital formation with the help of foodgrains which it previously used to consume in the agricultural sector where it was superficially employed contributing practically nothing by way of addition to agricultural production. But the matter of transferring surplus population from the agricultural sector to non-agricultural sector for productive purposes is not as simple as is presumed in the Nurkse-Lewis models of development. Such transfer and using of surplus agricultural labour in the non-agricultural sector bristles with many difficulties many of which may prove to be insurmountable in a backward country like India. For example, there are the problems of transporting of this surplus agricultural labour, providing adequate housing for them in urban areas where already there is very acute housing shortage, training them and making them learn necessary skills required in non-agricultural sector, transporting foodgrains from rural areas to urban centres instead of allowing higher consumption of foodgrains by the agricultural population which still remains in the countryside and so on and so forth.

capital formation

Perceiving the complex nature and vast dimensions of this problem of transferring of surplus agricultural labour to non-agricultural sector, A.M. Khusro feels that such wholesale transfer is unnecessary and wants that the surplus agricultural labour be used for capital formation in the agricultural sector itself where there is immense scope for physical capital formation in the form of wells, tanks, levelling of land surface, building embankments, major and minor irrigation works and so on. Agricultural workers mostly possess skills necessary to undertake such agricultural operations. Khusro is of the opinion that using surplus agricultural labour this way without transferring them wholesale to non-agricultural sector for capital formation is certainly more practicable, easier and definitely more effective from the point of view of capital formation.

According to the author, on the basis of the empirical study of this problem in Madhya Pradesh, "it is the Nurkse-Lewis model regarding the mobility of population from the agricultural to the non-agricultural sector which will be applicable in Madhya Pradesh economy during the period 1961-81". Using four different methods for estimating the quantum of surplus agricultural labour between 1961 and 1981 which according to the author, would vary between 7.81 million and 14.30 million depending upon the method of estimation used, the requirements of the non-agricultural sector of additional labour during the same period has been estimated by the author at around four million workers by 1981. The author therefore has maintained that the additional requirements of the non-agricultural sector could be met by transferring surplus agricultural labour to the non-agricultural sector.

But then the author is also aware that all the surplus agricultural labour during the period 1961-81 would not be and cannot be fully absorbed in the non-agricultural sector of Madhya Pradesh economy. He therefore has suggested that this part of the surplus agricultural labour will have to be gainfully employed in the agricultural sector itself. The author has used a considerable number of pages to suggest the various types of agricultural works in the rural areas on which substantial part of surplus agricultural labour can be gainfully employed, thus contributing substantially to capital formation in the agricultural sector itself.

vindication of Khusro

It appears strange that in the face of the subsequent thesis which the author has developed at considerable length, he should maintain in the earlier part of the book that it is Nurkse-Lewis model that holds good in the case of Madhya Pradesh. One gets the impression that, it is rather the Khusro model that carries greater validity in the case of Madhya Pradesh. Anyway there appears to be no ground for the outright rejection of Khusro model. It is now being realised to a greater extent that the vast agricultural population will have to be rehabilitated in the rural sector itself. In a sense, 20-point programme is a vindication of the Khusro model. It also appears that it would be better to take a pragmatic view of things instead of sticking to this model or that. The country has come to lose faith in model-building.

Except for this major contradiction in the book which gives a wrong perspective to the readers, the author has produced a good work highlighting all the main features and problems of the economy of Madhya Pradesh. The

author's various suggestions for the upliftment of the economy of Madhya Pradesh are unexceptionable.

HUMAN RESOURCES

There is greater awareness among developing countries these days of the need for and urgency of developing human resources as an integral part of the general economic development planning. There is now greater consciousness that the development of human resources is a key factor in the sustained and accelerated economic development. It is not just the development of land and capital formation that matter in economic development of backward countries. Important as they are, it is the human factor that plays the crucial role in the development process. The developing countries are therefore anxious to evolve a balanced, effective and rational approach to the problem of human resource planning. They are anxious to evolve a bold, well-conceived and well-designed strategy for better organisation and more efficient utilisation of the human resources in the country.

In *Human Resources Development Planning*, M.M. Mehta has made an attempt "to analyse and examine in an objective and scientific manner, the various approaches, tools, techniques and stratagies of human resources planning in developing countries."

According to the author, although it is not possible to assess the contribution of human capital to economic growth in the same manner and with the same degree of precison and sophistication as in the case of physical capital, a number of approaches have been recently evolved and the number of interesting studies and surveys have been recently conducted to provide some rational basis to measure the extent to which the investment in human resources has contributed to economic growth and development in advanced countries. According to the author, the difficulties of measurement, analysis and interpretation, though formidable, are by no means insuperable. The author has rightly emphasised that "It is better to have some yardstick rather than none at all for an objective assessment of the contribution of human resources to economic growth."

The author has emphasised that the broader implications of the future demographic growth and the likely changes in the size, composition and distribution of the labour force have to be adequately taken into account while determining the most effective approach to the problem of human resources development planning in the developing countries, as also the broad design and framework of strategy most appropriate for a rapid expansion and promotion of employment opportunities and for further development and more efficient utilisation of human resources.

a by-product

Analysing the employment policies pursued by developing countries during 1960s and early 1970s, the author is of the opinion that there is little evidence to show that most of the developing countries concentrated in employment objective. Employment creation was considered to be the by-product of economic growth. And therefore very little attention was given to possible alternative patterns of investment or alternative choices of production techniques that could maximise the impact of development planning on employment without compromising the overall rate of economic growth. There was inadequate realisation of the fact that economic development might succeed in raising output but not necessarily in increasing employment opportunities.

The major obstacles encountered during this period in the realisation of the employment objectives and targets were: slow rates of savings and investment and shortfalls in the plan expenditure, a rising capital intensity and investment and long gestation periods of investments made in economic and social infrastructure, under-estimation of population growth, labour force and participation rates, adverse terms of trade for primary commodities and non-implementation of specific programmes of employment promotion.

three pillars

The author therefore has drawn the conclusion that Asian planners must evolve and pursue as a major goal, a bold and active employment-oriented strategy to be carried out within the framework of overall economic planning for development. According to him, the three pillars of such an employment-oriented strategy should be: rural development, labour-intensive public works programmes, and the reduction of the capital-intensity of industrialisation. At the same time the educational system and vocational and technical training programmes must be closely coordinated with the employment oriented policies.

The author has emphasised that an integrated programme for the utilisation of manpower should include long-term aims and instruments for the development of human capacities, notably through education and training. The development of human resources through education and vocational training should be accorded a very high priority. These educational and training programmes should be based on systematic assessment of the long-term requirements of technical, professional and skilled manpower so that these programmes are appropriately geared to the needs of economic development planning.

Indian experience also shows that for long it was believed that general economic progress of the country would automatically solve the problem of employment. Now it has been realised that the assumption is not true, which therefore means that the problem of employment will have to be tackled specifically. It must also be realised that there may be possible conflict between the two objectives of rapid economic growth and expanding employment opportunities, especially in the short-run. Attmepts will have to be made to harmonise these two vitally important objectives. It must be realised that among all the factors of production, man is the most powerful instrument. It is his capacity that is mainly going to determine the way a country's economy will grow. And therefore, as the author has rightly emphasised, the human resources development assumes greatest significance.

The king's manual

Readings in Kautilya's Arthasastra: B.P. Sinha; Published by Agam Prakashan; 1736, Trinagar, Delhi-110035; pp 184; Price Rs 50.

Reviewed by **Kevy**

KAUTILYA ALSO known as Chanakya composed the Arthasastra in the 4th century B.C. According to Kautilya's own words the Arthasastra was "for the use of the king". Arthasastra regards Dharma as the "King of kings". Naturally the king had to conduct the affairs of state not as he liked but as an agent of Dharma. The Arthasastra is the king's manual to carry out Dharma. The king is advised to accept the Varnashrama Dharma and to enforce it.

What is the relevance of a king in this space age opting for republican forms of governments? What place has Varnashrama Dharma in our forward march to a classless society? Is not the Arthasastra rendered out of date by the radical advances achieved by society in the fields of politics economics and science? An unbiased study of the Arthasastra will dispel the suspicions that generate the above questions. We of the present age have our own responses to and understanding of certain words, phrases and ideas. If we judge tbe Arthasastra on the basis of the present day we would be indulging in the fiction of mixing the 20th century AD and the 4th Century BC. To avoid the folly we should leave behind the 20th century AD and travel backwards to the 4th century BC. Having looked at the people, institutions and ideas as they were in the 4th century B.C. we should come back to our own times and then proceed to assess the ideas of those times.

Though the superficial modalities of social life may change from decade to decade or century to century there exist certain constants in social life. The concept of sovereignty is inalienable from the concept of government. Whether it operates through a king or through a council of ministers with a popular base, the duties and prerogatives of sovereignty are the same. If we substitute 'sovereignty' for 'King' the Arthasastra is as valid today as it was 2500 years ago. In Kautilya's time society was broadly divisible into Brahmins (the seekers and propagators of knowledge), Kshatriyas (the soldiers and administrators), Vaishyas (the traders and agriculturists) and Sudras (the less affluent majority that had to seek service under the other three classes). Prescribing separate 'dharmas' for the classes is no different from prescribing codes of conduct for various professions as we presently do. The four 'Ashramas' divide man's life into (1) character building and education (Brahmacharya), (2) Marriage and family life (Garhastya), (3) life of retirement removed from family and possessions (Vanaprastha), and (4) renunciation (Sanyasa). An objection raised against the Varnashrama system is that it denies the Sudras their due. But today we are encouraging the spread of five-star hotels even if they are not within reach of the weaker sections of society.

"In the happiness of his subjects lies his (King's) happiness, in their welfare, his welfare. Whatever pleases himself he shall not consider as good, but whatever pleases his subjects he shall consider as good". Cannot any welfare minded government of today put itself in the place of Kautilya's King and benefit from his advice? Kautilya advises even an "inferior king to attack his ally if the latter's subjects are oppressed". To avoid the risk of popular disaffection Kautilya advises the king "not to march against a virtuous king as it would cause displeasure to his own people". Kautilya always held the people's good above that of the personal good of the sovereign.

wielding the rod

Professor Sinha presents the Arthasastra under various heads like the king, civil service, food and agriculture, industries, control of markets, law and justice, social life, food and drink etc. The many quotations occurring under each head bring home to us the all-encompassing vision, compassion and eye for detail of Kautilya. It is "as difficult to be sure of the financial integrity of an officer as to find out whether the fish in the water drinks or not". The officer supervising the cultivation of crown lands was required to ensure the availability of bullocks, ploughs basket makers and even "snake catchers" just in case of an emergency. "... Kautilya sought to recognise the mutually conflicting interests of the profit-seeking merchants, the money-grabbing state and the purchasing community". He laid down laws to protect the chastity of female slaves from the onslaught of their masters. The means of ensuring the pursuit of philosophy, the three vedas and economics is the Rod (Danda wielded by the king): on it depends the orderly maintenance of worldly life". Even under bondage the conditions of service of slaves in Kautilya's time were so honourable and humane that Megasthenes declared that slavery did not exist in India.

The book is largely a reproduction of facts as stated in the Arthasastra. The occasional comments made by the author are appropriate. He demolishes the prevailing notion in many quarters that welfare economics and planning are exortic idea and quotes chapter and verse to prove that Kautilya had clearly anticipated modern economists.

Global monetary crisis

Current International Economic Problems: V.S. Mahajan; S. Chand & Co (Pvt) Ltd; Pp 99; Price Rs 25.

Socialistic Pattern in India—An Assessment: V.S. Mahajan; S. Chand & Co (Pvt) Ltd; Pp. 151; Price Rs 25.

Reviewed by **Ashok Kumar Ummat**

DEALING WITH two highly topical subjects in the above two books, V.S. Mahajan, who has been teaching economic development and planning, international economics, economic development of Japan and advanced economic problems to the post-graduate and honour-school students of Punjab University, Chandigarh, for over a decade now, indeed, has done a commendable job. His observations are fortright, based, of course, on well marshalled facts.

The former volume strings together the various economic issues faced by the world economy currently, particularly in the monetary and trade fields. The information about them has to be assiduously gleaned from a variety of communication media as well as the reports of the various world agencies. Written in a simple but lucid, almost jargon-free style, the book traces the genesis of the present global monetary crisis to the excessive dependence for over two-and-a-half decades on a lone currency, the US dollar, which came to be equated with gold. The liquidity problem has been dealt with quite exhaustively with a view to showing how it fails to cater for the requirements of expansion of global trade.

The various efforts— the issue of special drawing rights, increasing of the spread around the mean exchange rates, floatations of currencies, avoidance of competitive devaluations, etc—made to sort out matters have been dwelt upon chronologically up to the end of 1973 the period covered by the book. As it was too early to assess at that juncture the complications arising out of the hike effected in 1973 in the price of crude oil by the oil exporting countries, the author only hoped that a lasting solution to the world problems would be found out though after some delay.

The book lays special emphasis on the problems of the developing economies. An attempt has been made to show how the efforts of the UNCTAD have been thwarted by the developed nations concerned primarily with their own economic interests. The author, however, lauds the endeavours of the UNCTAD in putting forth the developing countrie's basic problems of trade and development in a systematic and well argued manner and also for securing a larger share of world trade for these economies through such measures as commodity arrangements, the generalised tariff preference scheme, etc. He, however, concludes that considering the attitude of developed economies, UNCTAD should try to encourage larger trade and economic cooperation among the developing countries itself for which there appears to be considerable scope.

The book obviously needs to be up-dated in the light of the events subsequent to 1973—the accentuation of global inflationary trends in 1974 followed by recessionary tendencies in the advanced countries which worsened the plight of the non-oil exporting countries, lack of agreement on return to fixed exchange parities, the resistance from some of the advanced countries to international buffer-stocking of primary products, the emergence of oil exporting countries with large investible funds, etc. But even otherwise, it provides a good background for understanding the current global economic problems.

The second book, containing an assessment of the government of India's policy of socialistic pattern of society is equally useful not only for the students of economics but also for the general reader interested in knowing the outcome of the policies pursued by us since independence, in line with the political philosophy of non-alignment with either of the two power blocs. It starts with discussing the rationality of the middle path adopted by us for fostering economic growth and traces how the early overwhelming emphasis on building up a socialistic society came to be somewhat diluted after the second five-year Plan when caution and pragmatism were injected into the policy to suit the circumstances.

major beneficiaries

Analysing in detail the policies adopted for the development of agriculture, industry and infrastructure, the author reaches the conclusion that the major beneficiaries of these policies have been the big farmers in the rural areas and the big business houses in industry. Even the development of infrastructure has been more urban-oriented than rural-oriented. Quoting from the fourth five-year Plan document, he asserts that planned development has failed to result in a more even distribution of benefits, a fuller life for an increasingly large number of people and building up of a strong integrated democratic nation.

So far as agriculture is concerned, the author emphasises that the pitiable lot of the growing number of agricultural labourers and the not-so-encouraging a lot of the small farmers cannot be improved by creating alternative short-time occupations for them. The real solution lies in setting up more and more state farms where these people can find gainful employment opportunities. In regard to industry, while the author advocates greater governmental responsibilities directly, he also calls for the development of the small-scale sector at a rapid pace. In the field of infrastructure, he thinks that the approach should shift from investment deepening to investment widening. Instead of overdoing urban development, greater resources in future, he suggests, should be earmarked for the development of infrastructure in the rural areas.

Quite pertinently, the author, of course, points out that the concentration of wealth, both in the agricultural and industrial sectors, has been the result of the government's policies, though they aimed at differently.

In sum, the treatment of the two subjects in the two volumes is analytical as well as historical. The job has been done with clarity in easily intelligible language.

Books received

Economic Feasibility of an Asian Common Market : (A Study of the ESCAP Region) : Trilok N. Sindhwani; Sterling Publishers Pvt. Ltd, AB/9, Safdarjang Enclave, New Delhi-110016; Pp. 230; Price Rs 50.

Pulses: An Analysis of Demand and Supply in India 1951-71 : Kusum Chopra and Gurushri Swamy; Sterling Publishers Pvt Ltd; Pp. 132; Price Rs 30.

Environment: Problems of Developed and Developing Countries : Colonel R Rama Rao; Economic and Scientific Research Foundation; Sapru House, New Delhi; Pp 52; Price Rs 10.

Population Explosion: Col R. Rama Rao, Economic and Scientific Research Foundation; Pp 72; Price Rs 12.

An Account of the Presidency Banks: J.B. Brunyate; Reproduced from the printed copy supplied by Finance Library; Brought out to observe the centenary of the Presidency Banks Act 1876, by State Bank of India, Central Office, Bombay: Pp. 117+XXVII

The History of the Bank of Bengal: G.P. Symes Scutt; Reproduced from the printed copy supplied by National Library, Culcutta; Brought out to observe the centenary of the Presidency Banks Act 1876, by State Bank of India, Bombay; Pp. 166.

The Rise, Progress and Present Condition of Banking in India: Reproduced from the printed copy supplied by National Library, Calcutta; Brought out to observe the centenary of the Presidency Banks Act, 1876, by State Bank of India, Bombay; Pp. 424.

Co-operative Democracy in Action: O.R. Krishnaswami; Somaiya Publications Pvt. Ltd; 172, Mumbai Marathi Grantha Sangrahalaya Marg, Dadar, Bombay-400 014; Pp. 271; Price Rs 40.

Social Accounting for Developing Countries : P.L. Arya; Macmillan Company of India Ltd; 2/10 Ansari Road, Daryaganj, New Delhi 110 002; Pp. 178; Price Rs 45.

Economics of Hedging: M.G. Pavaskar; Popular Prakashan, 35 C Tardeo Road, Bombay-400034; Pp. 144; Price Rs 30.00.

Sugar Industry in India. My Recollections : R.N. Agarwal; Popular Prakashan: Pp. 231; Price Rs 60.00.

Wage Structure and Labour Mobility in a Local Labour Market: T.S. Papola and K.K. Subrahmanian; Published by Sardar Patel Institute of Economic and Social Research; Distributed by Popular Prakashan; Pp. 214; Price Rs 45.00.

Readings in Kautilya's Arthasastra : B.P. Sinha; Agam Prakashan, 1736, Tri Nagar, Delhi-110035; Pp. 184; Price Rs 50.00.

An Outline of Labour Legislation and Practices in India: Published by Indian Investment Centre, Jeevan Vihar, Parliament Street, New Delhi 110 001; Pp. 60; Price Rs 7.00.

Invest in Yourself : Published by Indian Investment Centre; Pp. 96; Price Rs 10.

Health and Population : S. L. Ogale; Published by Smt. Shaila S. Ogale, 3 Sneh-Sadan, S. T. Road, Mahim, Bombay-400 016; Pp. 319; Price Rs. 32.00.

Foreign Investment Policies (Select Country Profiles) : Published by Indian Investment Centre, Jeevan Vihar, Parliament Street, New Delhi-110 001; Pp. 120; Price Rs. 10.00.

Industrial Licensing and Foreign Collaboration : Published by Indian Investment Centre; Pp. 81; Price Rs. 10.00.

Productivity, Wages and Industrial Relations : G. K. Suri; Afiliated East-West Press Pvt. Ltd., 9, Nizamuddin East, New Delhi-110013; Pp. 144; Price Rs. 38.00.

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TRADE WINDS

Assistance from West Germany

WEST GERMANY has agreed to extend to India financial assistance totalling Rs 32.13 crores. (DM 362 million) for the current financial year.

The agreement for the assistance was signed in Bonn recently by Dr Lothar Lahn, ministerial director in the Federal Foreign Office and Dr Franz Kalmser of the Federal ministry of Economic Cooperation on behalf of the government of Federal Republic of Germany, and Mr M. Narasimham, Additional Secretary, ministry of Finance, on behalf of the government of India.

The assistance has been provided for the following purposes : (1) Commodity aid of Rs 16.42 crores (DM 45 million) to be utilised for financing India's current civilian import requirements; (2) project assistance of Rs 34.68 crores (DM 95 million) for financing the foreign exchange costs of mutually selected projects; (3) loan to Indian development banks to the extent of Rs 9.12 crores (DM 25 million). These will be extented to the Industrial Finance Corporation of India Rs 5.48 crores (DM 15 million) and the Industrial Credit and Investment Corporation of India Rs 3.65 crores (DM 10 million) to enable the imports of capital goods for small and medium enterprises assisted by these financial institutions; (4) capital goods assistance of Rs 9.13 crores (DM 25 million); (5) liquidity assistance of Rs 10.95 crores (DM 30 million) towards debt relief; (6) a prolongation loan of Rs 51.10 debt relief and (7) a grant of Rs 0.75 crores (DM 2 million) for the Tawi Rural Development Programme.

IDA Terms

The assistance at serial numbers 1 to 5 (as mentioned above) will be extended as a credit on IDA conditions, viz, maturity after 50 years including a grace period of 10 years and a rate of interest of 0.75 per cent. These terms are significantly softer than those for such loans in previous years. The loan at serial number 6 will have, as in the previous year, a maturity of 30 years, including a grace period of 10 years and a rate of interest of 2.5 per cent.

All loans extended by West Germany are untied and enable India to procure goods and services on the most competitive basis.

Wagon Units Nationalised

The President promulgated two Ordinances on June 23, called the Burn Company and India Standard Wagon Company (Nationalisation) Ordinance, 1976 and the Braithwaite & Company (India) Ltd. (Acquisition and Transfer of Undertakings) Ordinance 1976, nationalising the undertakings of these three companies. The undertakings of Burn & Company and ISW as well as those of Braithwaite & Company (India) Ltd. were vested in the central government with effect from April 1, 1975.

Burn & Co.

Burn & Company Ltd was incorporated in 1895 at Calcutta and its works are located at Howrah, Raniganj, Gulfarbari, Jabalpur, Niwar, Durgapur, Ondal Lalkoti and Salem. In the Howrah works, the company is engaged in the manufacture of railway wagons, cranes, heavy steel structural fabrication, steel castings, steel forgings, cast iron castings and railway points and crossing. The other works are engaged in the manufacture of refractories and ceramics.

Indian Standard Wagon Co. was incorporated in 1918 at Calcutta and its works are located at Burnpur, Asansol (West Bengal). It is engaged in the manufacture of railway wagons, steel forgings, leaf springs, coil springs and complete sets of components for wagons etc., for forgings, pressing, drop stamping etc.

Towards the middle of 1973, these companies reached a stage where these were almost on the verge of closure. The government stepped in and the management of the undertakings was taken over on December 19, 1973 under the Burn Company and Indian Standard Wagon Company (Taking over of Management) Act, 1973. Even at that time the government's intention was to acquire the undertakings of these two companies subsequently. The nationalisation of these two companies now has flown out of this decision.

In terms of the provisions of this ordinance a custodian has been appointed. The undertakings of the companies will be transferred to a government company, which would be known as Burn Standard Company. In consideration of the acquisition of the undertakings of Burn & Co Ltd and Indian Standard Wagon Co Ltd, it has been provided to make a payment of Rs 13.88 crores and 11.35 crores to these two companies.

Braithwaite & Co.

Braithwaite & Company (India) Ltd. was incorporated in 1930 and has two manufacturing units, one located at Calcutta (Clive Works) and another as Angus works near Calcutta. In the Clive works, manufacturing activities comprise of various types of railway wagons, structural/steel work for bridges and heavy workshops buildings, and pressed steel tanks. In the Angus Works, various types of cranes, road rollers, jute carding machines, roll formers, power sweepers, grey iron castings and steel forgings are manufactured. The company started incurring continued losses after the recession of 1966 and as a result the main centre of activity of the company at its Clive works had to be closed down on January 18, 1971. The government, after appointing a committee, took over the management of the company under the provision of the IDR Act with effect from March 6, 1971. The works of the company reopened on March 29, 1971.

At the time of take-over, the company's accumulated losses were very substantial. The government has been financing the company all along and goverement loans have progressively increased to more than Rs 22 crores by March 31, 1975.

A scheme of modernisation has been undertaken and government has already sanctioned funds for the purpose. By virtue of this ordinance, the undertakings of the company have vested in the central government with effect from April 1, 1975 and a custodian has been appointed.

Awards For Import Substitution

The Pressdent, Mr Fakhruddin Ali Ahmed, presented 22 National Awards recently for meritorious import substitution to those institutions and individuals who have developed new products as substitutes for imported materials through their ingenuity and enterprise. The awards comprised one gold shield, nine silver shields, six bronze shields, certificates of merits and cash ranging from Rs 2,000 to Rs 5,000.

The gold shield was awarded to M/s Punjab Tractors Ltd. Chandigarh for the development of an agricultural tractor, Swaraj-124, which is the only tractor made in the country with 100 per cent indigenous know-how and technology having 100 per cent indigenous content. During the year 1974-75, this unit saved nearly Rs 40.2 million in foreign exchange.

Some details about the other 21 award-winners are: (1) National Dairy Development Board, Gujarat — awarded a Silver Shield for the development of Bulk Vending System for consumable liquids. (2) Maize Products, Gujarat — awarded a Silver shield for the development of Anhydrous Dextrose. (3) Metal Powder Co Ltd, Tamil Nadu — awarded a Silver Shield for the development of Leafing Grade Aluminium Powder which is suitable for slurry type explosive compositions. (4) Mr P.D. Kulkarni of Fuel Instruments and Engineers Pvt Ltd, Maharashtra - awarded a Silver Shield for the development of Universal Testing Machine. (5) Harig (India) Pvt Ltd, Uttar Pradesh — awarded a Silver Shield for the development of an Automatic Bread Slicing and Wrapping Machine.

(6) Electronic Corporation of India Ltd, Andhra Pradesh — awarded a Silver Shield for the development of Metal Film Resistors. The originator of the product, Mr L. Satayanarayana, received Rs 2,000 as cash award. (7) Cadmach Machinery (India) Pvt Ltd, Gujarat—awarded a Silver Shield for the development of CM 3D 27 Rotary Tablet Machine and Capsule Sealing Machine. (8) Electronic and Radar Development Establishment, Karnataka - awarded a Silver Shield for the development of Nickel Cadmium Battery of rating 15/2.5 v 7.2 ah/HT/Lt. Mr P.K. Saha, the originator and patent holder, received Rs 3,000 as cash award and other members of the team Rs 2,000 cash. (9) Central Machine Tools Institute, Karnataka — awarded a Silver Shield for the development of Flow Forming Lathe machine for making domestic utensils. (10) Vidyut Udyog, Bihar — awarded a Bronze Shield for the development of Carbon Tape used in the high frequency cables to neutralise the corona effect which is produced by flow of high current in the cable.

(11) Kirloskar Electric Co Ltd, Karnataka—awarded a Bronze Shield for the development of DC motor for Roller Table Drives. (12) Simco Meters Ltd, Tamil Nadu and Aeronautical Development Establishment, Karnataka jointly awarded a Bronze Shield for the development of Gronnd Starting Aggregate for aircraft. (13) Weweld Regulator Co, Maharashtra awarded a Bronze Shield for the development of High Pressure Charging Regulator MK III 6D/1702 type. The regulator is used by Air Force for charging oxygen cylinders for high altitude breathing and for release in the after burner of jet planes for emergency speeding of the the aircraft. (14) Kishore Pumps Pvt. Ltd, Maharashtra- awarded a Bronze shield for the development of Vertical Centrifugal Pumps for handling mercury in caustic soda plants. (15) Hifchem Pvt Ltd, Maharashtra - awarded a Bronze Shield and a Certificate of Merit for the development of Glycerol Alpha Monochlorohydrin. This product is used for the production of chlorophenesin and mephenesin drugs and guaicol glyceryl ether.

(16) Mr Sham Sunder Sharma of Jhaveri Thanawala, Maharashtra — awarded Rs 2,000 cash and a Certificate of Merit for the development of Fibre Glass Discs treated with phenolic resin for reinforcement of grinding wheels. (17) M/s B.S. Govinda Rao, P.S. Ragahvendra, V.K. Chaturvedi, Anil Kumar, K. Ramaswamy, T.G. Vasudevan and R. Ramakrishna, Engineers of Indian Telephone Industries Ltd, Karnataka awarded a Cash Prize of Rs 5,000 and a Certificate of Merit for the development of ARQ equipment. This is an automatic error correcting equipment providing protection to transmission of telegraph messages of high fidelity on

interference prone transmission path.

(18) Mr Uttam Bhandari of Protection (India), Karnataka — awarded Rs 4,000 cash for the development of Time Delay (Slo-Blo) Fuses and Anti-Surge Fuses. These fuses provide high speed action necessary to protect the sensitive electronic circuits. (19) Mr Kumar Balram Bhatia of Blue Steel Engineers Pvt Ltd, Maharashta—awarded Rs 4,000 Cash and a Certificate of Merit for the development of a Shore Hardness Tester for Rubber. The tester has established export market.

(20) Mr Jugal Kumar Paul of Breathing Equipment Co, New Delhi — awarded Rs 2,000 cash for the development of Automatic Versatile Respirator of various types. (21) Mr Brahm Datt of Mohan Tools Corporation, Delhi — awarded Rs 2,000 cash a Certificate of Merit for the development of a fully Automatic High Output Labelling Machine. The country saved nearly Rs 77.5 million in foreign exchange during 1974-75 as a result of the efforts of these awardees.

Sugar for Free-sale

The union government has decided to release an additional 10,000 tonnes of free sale sugar for immediate sale to correct the trend of sugar price which has shown a slight rise in the last few days.

This is in addition to the 205,000 tonnes of levy sugar and 80,000 tonnes of free sale sugar released already for the month of June. A spokesman of the department of Food stated that the government expected the trend to respond by ensuring that the prices were not allowed to rise.

Better Cargo Facilities

The International Airports Authority of India has undertaken a crash programme for facilitation of export cargo from Delhi and Bombay to meet immediate requirements. At Delhi, an export examination cargo terminal is being set up for the airlines who do not have their own cargo units at the airport or whose cargo is handled by Air India. At Delhi airport, airlines like Air-India, Pan Am and Air France who have their independent cargo units, have been allowed to extend the covered space.

The Central Warehousing Corporation has been offered a plot of land on the south of the main runway measuring one hectare for constructing an import warehouse. At Bombay, an export examination shed was commissioned early this month. The facility has helped the customs, airlines and cargo industry by providing custom examination of all cargo centrally in the shed. The shed covers area of 10,000 sq feet and its construction has been completed in a record time of four months.

Indian Airlines

In December 1976, Indian Airlines crossed the 10,000 passengers a day mark.

To be precise Indian Airlines carried on an average 10,550 passengers in December 1975. In January 1976 it carried 10,355, in February —10,400 and in March— 10,130 a day. Thus the airline has crossed for the first time 3.36 million passengers mark in 1975-76. This represents a growth of 15.7 per cent compared to the world average of about four per cent. On the trunk routes alone the growth rate was 16.5 per cent. Availing of the 'Discover India' and 'Youth Fare' scheme, 7638 tourists travelled by Indian Airlines between September 1975 and March 1976 as against 4,657 tourists during the corresponding period of 1974-75. This indicates a growth rate of 64 per cent.

Trade Fairs

Swiss National Fair

Swiss National Fair will be held in Lausanne from September 11 to 26, 1976. It is Switzerland's important economic fair with emphasis on industry and agriculture. The fair has nearly 2,500 exhibitors showing Switzerland's economic activities and services.

Brno International Fair

The International Engineering Fair at Brno in Czechoslovakia is to be held from September 15 to 23, 1976. On an area of 75 hectares, nearly 2,000 exhibitors from 30 countries present their engineering products. Machines and equipments for textiles, foot wear and leather industry, are to be the key group for exhibition.

International Food Products Exhibition

The international food-products exhibition (SIAL) is to be held from November 15 to 29, 1976 at the Palais Sud of the Parc des Expositions, Porte de Versailles, Paris. The exhibition will bring together nearly 50 countries this year as against 32 in 1974. Various products on display include food items, dairy and poultry products, meats, fruit and vegetables, sweets, bakery, dietetic products, sausages, pork meat-preserves, deep frozen products, grocery provisions, beers and soft drinks, wines, ciders and spirits.

DFIs Meet

The sixth regional conference of Development Finance Institutions (DFIs) of Asia and the Pacific will be held at the Asian Development Bank's headquarters in Manila from September 29 to October 1, 1976. The conference, to be convened by the ADB, will provide a forum for an exchange of views between the participants. It will be attended by senior officials of 34 DFIs from the region and other organizations involved in development financing and related activities in regional and non-regional countries.

The main theme of the three-day conference will be "Development Through Cooperation Among Development Finance Institutions."

Names in the News

Mr M. N. Govindaraj has taken over charge as Managing Director, Tamil Nadu Industrial Investment Corporation Limited from **Mr A.M. Sundararaj, IAS**, on Juue 17, 1976. Mr Govindaraj was till recently attached to Credit Planning Department of the Reserve Bank of India, Bombay.

COMPANY AFFAIRS

Escorts

PRODUCTION AND SALES turnover of the Escorts Ltd, during the first 5½ months of 1976 exceeded Rs 38 crores as against Rs 32 crores in the corresponding period of 1975. The profit of the company was close to Rs 3 crores compared to Rs 1.74 crores in the same period last year.

The installed manufacturing capacity of the automobile ancillary industry in the country is far in excess of the domestic demand. The chairman of the company, Mr H.P. Nanda, called for better utilisation of automobile ancillary capacity for exports. The company is also actively engaged in exploring export markets for its products.

New Projects

In may 1976, the company started a new export-oriented project CGR-India at Santa Cruz Electronics Export Processing Zone in Bombay. CGR-France are the collaborators for this project. The products from this venture will be exported to the USA, the UK, Canada, West Germany, France, Italy and Spain.

The International Finance Corporation, Washington and the consortium of Indian financial institutions have approved a loan of Rs 12.5 crores, including $16.5 million, for the expansion of piston and piston pin manufacturing plant of the company being set up at Bangalore. The plant is expected to commence production by November 1977.

In the field of R & D, Mr Nanda highlighted the achievements of the company, especially the 4-wheel drive tractors, developed entirely by the company's own team of young engineers to meet the requirements of middle-east and south-east Asian countries.

Sundaram Finance

The working results of Sundaram Finance Ltd, disclose a sharp rise in the gross income from hire-purchase business and from other sources, as well as net profits before taxation. The amount advanced on hire-purchase contracts during 1975 amounted to Rs 1309.77 lakhs as against Rs 1336.23 lakhs in the previous year. The earnings in the hire-purchase transactions during the year 1975 were Rs 314.26 lakhs compared to Rs 219.36 lakhs during the year 1974. There was an increase in the administrative expenses from Rs 34.20 lakhs in 1974 to Rs 46.37 lakhs in 1975.

The directors of the company have recommended an equility dividend of 16 per cent for the year 1975. Under the provisions of Companies (Temporary Restriction on Dividend) Act, 1974, a dividend of 12 per cent will be paid immediately and the balance of four per cent in two equal instalments in July 1976 and July 1977, with an interest of eight per cent.

The directors of the company have recommended capitalisation Rs 50 lakhs from the general reserve for the issue of bonus shares of Rs 10 each to be given to the existing shareholders in the ratio of one bonus share for every two equity shares held. The bonus shares will rank *pari passu* in all respects with the existing shares and shall be entitled to any dividend declared from January 1, 1976.

TISCO

The Tata Iron and Steel Co Ltd suffered a sharp set-back in its working for the year ended March 31, 1976. The gross profit of the company declined from Rs 43.10 crores to Rs 28.87 crores during the year. The net profit of the company was also sizably lower at Rs 7.87 crores as compared to Rs 12.37 crores last year. Total turnover this year amounted to Rs 287.63 crores as against Rs 279.22 crores for the preceding year.

Subject to the approval of Controller of Capital Issues, the directors of the company propose to raise the paid-up value of equity share from Rs 75 to Rs 100 by capitalising Rs 12.86 crores from its general reserves. With this capitalisation the ordinary share capital of the company will increase from Rs 38.58 crores to Rs 51.44 crores divided in 51,44,027 equity shares of Rs 100 each fully paid-up. There will also be an increase in the total share capital of the company from Rs 49.98 crores to Rs 62.84 crores.

A notable achievement of the company during the year under review was its exceeding the target of one million tonnes of steel exports.

Dalmia Cements

The working results of Dalmia Cements for the year ended December 31, 1975 showed improvement over the previous year, despite a rise in cost of raw materials, wage bills and continued power shortage. Sales turnover of the company increased from Rs 15.77 crores in 1974 to Rs 18.80 crores in 1975. Gross profits of the company in 1975 were Rs 2.78 crores as compared to Rs 2.17 crores in 1974.

The directors of the company have recommended a dividend of nine per cent on preference shares and 20 per cent on equity shares. Dividend payments will absorb a sum of Rs 60.19 lakhs—Rs 2.80 lakhs for preference shares and Rs 57.39 lakhs for equity

shares. The dividend on equity shares will be paid subject to the provisions of the Companies (Temporary Restrictions on Dividend) Act, 1975.

Production of cement during the year 1975 was of the order of 492,000 tonnes as against 424,000 tonnes in the year 1974, a rise of 15 per cent.

Harig India

Harig India Private Ltd has received the national award for import substitution for its automatic bread slicing and wrapping machine. The machine has been developed indigenously by a team of young engineers of the company. This machine costs Rs 3.5 lakhs as against an import price of Rs 5 lakhs for the same type of machine. The company supplied its first machine in October 1974 to Britannia Biscuits Co Ltd. It has already supplied five more machines since then. The company has a capacity of manufacturing about six machines per year. The company at present is exploring the export potential of this machine and is hopeful of getting export orders from Iraq.

Modi Industries

Adverse economic conditions, fall in demand, higher production and lower capacity utilisation were the factors responsible for the unsatisfactory performance of Modi Industries Ltd for the year ended October 31, 1975. Although there was a marginal increase in the gross turnover from Rs 30.76 crores to Rs 32.45 crores in the year 1974-75, the company incurred a net loss of Rs 1.52 crores for this year against a net profit of Rs 38.88 lakhs for the previous year. After making other adjustments, the company showed a negative balance of Rs 1.36 crores for the year 1974-75 against a surplus of Rs 72.16 lakhs in the previous year. The directors of the company have skipped the equity dividend for the year.

Brooke Bond

The Brook Bond India Ltd will be issuing 46,90,000 fully paid-up equity shares of Rs 10 each to the existing shareholders as fully paid bonus shares in proportion of seven bonus shares for every 10 fully paid-up equity shares held by those members whose names appear on the company's Register of Members as on August 3, 1976 on capitalisation of an amount of Rs 4.18 crores from the general reserve and a sum of Rs 50.25 lakhs out of the share premium account. The bonus shares to be so allotted shall rank in all respacts *pari passu* with the existing equity shares except that the bonus shares shall not participate in any dividend which may be declared in respect of the financial period of the company ending July 3, 1976.

After the allotment of the bonus shares, the company will also offer 28,56,150 equity shores of Rs 10 each as right shares to resident Indian nationals for cash at a premium of Rs 3 per share to those members whose names appear on the Register of Members as on August 3, 1976. Letters of rights setting out the terms of the rights issue will be despatched in due course to the shareholders entitled to the same.

For the purpose of the above issues the Register of Members and the transfer books of the company will remain closed from July 14, 1976 to August 3, 1976, both days inclusive.

Century

The cement unit of Century Mills which commenced production in 1975, produced about 360,000 tonnes of cement during the 'base period'. It expects to produce 660,000 tonnes during the current year. The additional cement production of 540,000 tonnes would qualify for 25 per cent of excise duty relief amounting to about Rs 82 per tonne. The excise relief to the company on cement alone would be about one crore of rupees. The relief would be larger when the company's other cement plant goes into operation.

Indian Hotels

The Indian Hotels Co Ltd has once again shown excellent working results for the year ended March 31, 1976.

During the year the total revenue of the company rose from Rs 726 lakhs to Rs 861 lakhs or by 18.5 per cent over the previous year. After providing Rs 50.47 lakhs (previons year Rs 49.39 lakhs) for depreciation and Rs 48.84 lakhs (previous year Rs 52.21 lakhs) for interest, the company's profit before tax was Rs 137.91 lakhs compared to Rs 98.37 lakhs in the previous year, reflecting an increase of 40.2 per cent.

Having adjusted the benefit of the relief available to the company for exemption of income-tax under Section 80J of the Income-tax Act in respect of new undertakings, the company became liable to tax during the year (previous year Rs nil) and has made a provision for tax of Rs 33 lakhs.

After providing Rs 7.06 lakhs towards development rebate reserve (previous year Rs 1.45 lakhs) and making adjustment of refund for income tax pertaining to the earlier years amounting to Rs 1.23 lakhs (previous year—payment of Rs 0.02 lakhs) the amount available for appropriation is Rs 99.08 lakhs (previous year Rs 96.90 lakhs) of which Rs 41.09 lakhs has been provided for payment of dividends as recommended by directors as against Rs 37.44 lakhs for the previous year.

The directors of the Indian Hotels Co Ltd have recommended, subject to deduction of applicable taxes at source, the payment of dividend of Rs 9.30 (previous year Rs 9,30) on the 9.3 per cent cumulative redeemable preference shares of Rs 100 each and a dividend of Rs 2 (previous year Rs 1.80 including the deferred dividend in terms of the Dividend Act than in force) on the ordinary shares of Rs 10 each.

Bonus Shares

The directors have also recommended issue of bonus shares in the ratio of two bonus shares for every five equity shares held, by capitalisation of Rs 72 lakhs from reserves. Barring unforeseen circumstances, the directors have indicated their intention to pay a dividend of 18 per cent on the increased equity capital after the issue of bonus shares.

News and Notes

A pilot plant for the production of Borax, set up by the scientists of the Regional Research Laboratory (RRL), Jammu, under the auspices of state-owned **Jammu and Kashmir Minerals Ltd**, will go into trial production very soon. The plant is located in 4200 metre high Puga Valley in the remote area of Ladakh.

Apart from providing technical assistance for this project the RRL scientists will also take up another project for the recovery of Potash from Tsokar Lake, situated at an altitude of 5100 metres about 20 km from Puga Valley. The project is of significant importance as India is totally dependent on foreign sources for these products.

Jessops & Co Ltd, the Calcutta based public undertaking has drawn up a Rs 8 crores rehabilitation programme to cope with its growing export commitment and for the production of new equipment for home consumption. The programme has been cleared, both by the ministry of Industry & Civil Supplies and the Planning Commission.

The company has in hand an order worth Rs 2 crores for the supply of two level stuffing cranes—120 tonnes each—for the dry docks at Dubai. The company has decided to work in collaboration with Clark Chapman of England, for the supply of heavy duty cranes in third countries.

Rajasthan Financial Corporation has sanctioned loans aggregating Rs 10.74 lakhs to eight industrial units in the state on the advice of the loans sub-committee of the corporation. It will generate an employment for about 90 technically qualified and other persons.

One of the industrial unit will be set up in Nagaur, an industrially backward district of the state and remaining seven units will be set up in Jaipur, Bikaner & Kota districts. One industrial unit which will manufacture Plaster of Paris is being set up by an unemployed technocrat at Bikaner. Other industrial units will manufacture Potassium Ethyl Xanthate, nails and shoe tacks, marble sawing and slabs, dal and edible oils, refined salt etc.

New Issues

Nagarjuna Steel Ltd is setting up a Rs 5.10 crores cold rolling mill complex with a capacity of 12,000 tonnes per annum, in a notified backward area of Andhra Pradesh. The company is entering the capital market on July 7 and offering 7.35 lakh equity shares of Rs 10 each at par and 23,000 redeemable cumulative preference shares of Rs 100 each carrying an interest at the rate of 11 per cent per annum. The subscription list will close on July 17 but not before July 9. The project has been promoted by the Andhra Pradesh State Industrial Development Corporation Ltd.

The project will be financed by equity share capital of Rs 147 lakhs, preference share capital of Rs 23 lakhs, term loans and debentures of Rs 323.47 lakhs, unsecured loans Rs 1.53 lakhs and central subsidy of Rs 15 lakhs.

The plant is expected to start trial production in October 1976 and commercial production by January 1977. On full production company expects to have a turnover of Rs 6 crores. Mecon will be acting as technical consultants of the company.

New Registrations

One hundred and ninety companies with an authorised capital of Rs 8455.75 lakhs were formed during the quarter ending March 31, 1976.

Out of these 13 were public companies and 177 private. In the northern region, comprising Haryana, Uttar Pradesh, Rajasthan, Himachal Pradesh and Jammu and Kashmir and union territories of Delhi and Chandigarh, only 167 companies were registered during the preceding quarter.

During this period nine companies went into liquidation, two companies were struck off the Register of companies under Section 560 of the Companies Act, 1956, and two companies transferred their registered offices from Rajasthan to other regions.

One hundred and seventeen prosecutions were filed by the Registrar of Companies against companies and their delinquent officers in Delhi and Haryana. Of the cases decided, 116 resulted in conviction. Fines collected totalled Rs 35,075.

In Uttar Pradesh 26 fresh prosecutions were launched, of the cases decided 14 resulted in conviction and a fine Rs 1718 was imposed.

In Punjab and Himachal Pradesh out of the cases decided 23 cases resulted in conviction and a fine of Rs 2260 was collected.

Dividend

Name of the company	Year	Equity dividend declared for: Current year	Previous year
Higher Dividend			
Makum Tea	Dec. 1975	25	20
Asian Paints	Dec. 1975	15	11
Same Dividend			
Widia India*	Dec. 1975	12	12
Lower Dividend			
TISCO	March 1976	10.33	11.07
Zenith Steel	April 1976	12.5	12.7
Sundatta Foods	Dec. 1975	Nil	12

*The dividend is on the increased capital.

The Madras Aluminium Co., Ltd.

Shri R. Venkataswamy Naidu's Review

The following is the address to members of the Company delivered by Shri R. Venkataswamy Naidu, Managing Director, at the 16th Annual General Meeting of The Madras Aluminium Company Limited held at 'Shanmuga Manram' Race Course, Coimbatore—18 on Monday, the 28th June 1976:—

I welcome you all to the Sixteenth Annual General Meeting of the Company.

At the outset, I request the Members to observe a minute's silence as a mark of respect to the memory of the late Bharat Ratna Shri K. Kamaraj. In him the country has lost a great patriot, a leader of the masses and one who rendered yeoman service to the country and the people throughout his life. As you are all aware, he was instrumental in setting up the aluminium industry in the State.

Shri R. Venkataswamy Naidu

During the year 1975, your Company had to face serious difficulties on account of critical power position and low realisation for its products. The power cut amounted to 75% during part of the year. The production losses amounted to nearly 5,000 tonnes and the company had to spend nearly Rs. 40 lakhs to restart the plant.

During July 1975, the Government of India announced the New Integrated Aluminium Policy by which the electricity tariff was revised upward for the aluminium industry and the new dual pricing policy was devised. Under this policy, our electricity rates went up by nearly four times. At present we have to supply 50% of our production as levy metal at prices which do not take into consideration depreciation and profit on invested capital. These are expected to be covered by the sale of non-levy metal for which there is no price control. Unfortunately, due to the high cost of the metal, increase in excise duty and the general economic recessionary trend, consumer resistance developed and the stocks started pilling up. At one stage, the producers in the country were holding stocks of over 35,000 tonnes. Your Company's stock also went up to over 3,000 tonnes. Consequently, the Company's working finance got reduced and additional bank finance had to be arranged and high interest rates had to be paid on the liabilities to suppliers and repayment of term loans to financial institutions had to be rescheduled. In spite of these very adverse conditions, the Company was able to avoid incurring cash losses due to prudent management measures.

The Company's performance during the first half of 1976 is far from satisfactory. In order to improve the demand for the metal, the Government of India reduced excise duty on non-levy metal by Rs. 1,200/- per tonne in March 1976. In order to enable the producers to reduce their huge stocks, they also permitted the export of 20,000 tonnes for 1975-76 period and an initial 15,000 tonnes for 1976-77. In order to reduce stocks, we also exported about 2,000 tonnes of metal, incurring considerable cash losses.

In this context, I wish to refer to the export policy of the Government of India for virgin aluminium. After a lapse of 6/7 years, the Government of India permitted the export of aluminium in limited quantities, i.e. 35,000 tonnes. I understand that the Government of India are likely to review the position at a later stage regarding permitting further exports. When the Indian producers exported the metal, they had to do so at considerable cash losses ranging from Rs. 500/- to Rs. 1,500/- per tonne. However, at present there is a pick up in the price in the international market and by the end of this year the price for aluminium in international market is expected to rise considerably. Hence, I appeal to the Government of India to reconsider the matter and to permit exports of aluminium in order to sustain the foreign markets for future years and also to earn valuable foreign exchange.

I am aware that you are seriously concerned about the future of the Company as it has been facing setbacks continuously ever since 1973. I wish to assure you that your Company has a bright future in spite of the temporary setbacks. Aluminium being the most important non-ferrous metal, in view of the abundantly available resources of bauxite in the country, has a very Important role to play in the nation's economy.

As you are aware, we have installed facilities for production of 25,000 tonnes per year of primary metal. Our capacity on the basis of power availability is only 22,000 tonnes at present. Though the Government of

Tamil Nadu have sanctioned 94 MVA to our smelter, they have only made available 67 MVA so far due to inadequate line and transformer capacities. The additional power is expected to be made available before the end of this year.

The Members will be glad to know that the Company has finalised its agreement with Scal GP of France for the acquisition of know-how for manufacture of the Sheet Casting Machine and the manufacture of sheets utilising continuous casting technique. We have already successfully completed trial runs of a sheet casting machine of a smaller size and we have trial marketted about 70 tonnes of sheets produced out of this caster. We have programmed to start commercial production of sheets during the later half of this year. Our project work on extrusion press is at an advanced stage and we are negotiating with the suppliers for minimising the import requirements. Hence, I once again wish to reiterate that, with the general improvement in the economic climate in the country, with the availability of power for full production of 25,000 tonnes and with the diversification of plans on hand, your Company has a bright future.

Before I conclude my speech, I wish to thank the Government of India, Government of Tamil Nadu, our Collaborators, M/s. Mediobanca, Government Financial Institutions and our Bankers for their continued cooperation and for the help rendered to us. I also wish to pay a tribute to our employees at all levels for their devoted service.

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

Trade Development Authority

Speech by

Shri S. G. Bose Mullick

Chairman

Trade Development Authority at the Sixth Annual General Meeting held at Bank of Baroda Building, 16, Parliament Street, New Delhi-110001 on June 29, 1976.

Gentlemen:

It gives me great pleasure to welcome you this morning at our 6th Annual General Meeting. The Report for the year 1975-76, together with the Audited Statement of Accounts is already with you. I hope, you have had a chance to go through them.

The Trade Development Authority has now completed six years of its existence. After rendering devoted service to this institution since its inception, Shri A.C. Banerjee, the first Executive Director of the TDA, retired on 31st August, 1975. I wish to utilise this opportunity to record, on behalf of all of us, our deep appreciation of his outstanding services. The new executive Director Shri A.K. Ray, took over on 15th September, 1975. You will have observed from the Annual Report that the past year has been one of transition for the TDA. The benefit of six years of experience now requires translation into new activity. preparations commenced during 1975-76 for certain new tasks ahead of us. Accordingly, certain internal changes have been carried out in the institution itself.

It is customary to begin with a few observations on the international economic scene. During the year 1975-76, the world economy has faced a number of challenges which have given new directions to the international economic situations. On the one hand, the impact of inflation accentuated by the oil price hike combined with recessionary trends created significant dislocation in the production and trade patterns. On the other hand, there has been a growing awareness among the developing countries that their economic dependence on the developed world has often implied deterioration in the terms of trade and slow progress in the process of industrialisation in the developing countries. This awareness has induced the developing countries to demand a new international economic order in which the disparities in the levels of development, at present observed in the world economy, are reduced in stages. This desire of the developing countries for new international economic order has provided the basic theme of the UNCTAD IV sessions which were recently concluded in Nairobi. It is fortunate that the world economy is recovering from the situation of stagflation and the signs of recovery have become more distinct in the recent past. This recovery is partly indicated by the substantial rise in the import bill of the industrial countries in the first quarter of 1976. This rising trend in the import bill of the major industrial countries has set in right from the last quarter of 1975. However, the increase in the value of the total exports of the industrial countries is rather moderate which might be probably due to a cyclical lag in the recovery of import demands of non-industrial countries. The total exports are valued at $ 137.4 billion during the first quarter of 1976—about $ 4 billion more than that in the corresponding quarter of 1975. Canada, Japan and the UK have increased their exports significantly in early 1976. There are indications of success in the fight against inflation in both the developed and the developing world. Thus, with the gradual recovery of the world economy, from the painful experience of stagflation, the developing countries could look forward with hope about the bright prospects for their export trade.

As against this environment in the world economy, the Indian economic scene has also shown similar signs of recovery and significant thrust towards faster development. The growth rate of industrial production in the economy was 2.5 per cent in 1974-75. In the first nine months of 1975-76, however, the rate of growth of industrial production has accelerated and is estimated at around 4 per cent. It is expected that the rate of growth for the whole year, 1975-76, would be between 4 to 5 per cent. It is gratifying to note that production in some of the basic industries such as steel, coal, cement, fertilisers and electricity during the first ten months of 1975-76, was substantially higher than in the corresponding period of last year. Growth of production in the heavy engineering sector has also been quite impressive. Coupled with this significant thrust in industrial production, the successful control of inflationary trends in the economy through various fiscal, monetary measures, and good agricultural production along with the new direction given to the economy in terms of the 20-Point Economic Programme announced by the Prime Minister of India, the economy is poised for a significant breakthrough in various fields of activities. The process of international trade has also not lagged behind the general trend of economic activities. India's exports increased from Rs 3330 crores in 1974-75 to over Rs 3900 crores in 1975-76. As against these exports, however, imports also increased during this year, largely on account of the increases in the prices of industrial products and those of food, fuel and fertiliser which together constituted more than 50 per cent of the total import bill. Though the trade gap in 1975-76 is expected to be less than that of the previous year, both the policy-makers and the industry have to prepare plans for eliminating the trade gap in the near future. Part of the increase in our export prospects might be due to the increase in the world export prices of manufactures. Thus, our export efforts have to be given a new direction so that increase in the exports, even in real terms, could be substantial. This objective calls for a systematic analysis of our export performance and also a choice of rational policies.

It is worth noting that various export promotion policies enunciated during 1975-76 have been aimed at providing a sound basis for our export economy. The policies are framed so as to take an integrated view of the entire export activity from the stage of production to the stage of marketing. The bottlenecks hindering the process of export expansion are identified and policy measures initiated to remove them. It is now recognised that export promotion efforts consist of not only providing export incentives but also valuable export services of different kinds to exporting manufacturers and traders. This increase in awareness of the importance of export services among the industry and policy-makers has given a new fillip to the activities of the Trade Development Authority which has the export services as its fundamental objective in its export promotion efforts.

Keeping in view the experiences of the operations of the TDA during the last six years and also the new challenges facing the economy in the coming years, several novel instruments of export services were designed, experimented and perfected by the Trade Development Authority. Among its various novel instruments such as Contact Promotion Programmes, Trade Fairs, Product Adaptation Programmes etc., special mention could be made of the technique of buyer-seller meets which achieved significant success during January-February, 1976. This instrument is unique to the export service system in India and has been well-suited to the requirements of the exporting community. It is distinct from the approach of exhibitions, trade fairs or India weeks in respect of the preparation, the method of execution and the expectations of the activity. While it involves substantial ground work in terms of market evaluation of the products, acquisition of information of market potentials by the prospective participants, product adaptation and designing the products for the specific market, choosing the appropriate buyers etc., it culminates in the active participation of both the buyer and the seller to finally negotiate and strike the deal. Thus, the buyer-seller meet is an integrated approach to the export services required by the exporting community. The TDA has built the necessary skills to arrange such meets on a large scale and the success achieved in the recent meets of New York and Dallas is an indication of the unique abilities acquired by the TDA in this regard. It is not out of place to mention here that spot orders booked at the two buyer-seller meets of New York and Dallas amounted to Rs. 11 crores and substantial enquiries worth nearly Rs. 3 1/2 crores were also generated. Apart from this quantitative success, the buyer-seller meets have opened a new vista of export contacts in a market which is for all practical purposes unlimited.

During the past year, the Trade Development Authority has successfully continued its programme of providing technical advice to the manufacturer-exporters with the help of foreign technical experts. These programmes were made possible under the various bilateral arrangements such as Commercial Development Programmes, SIDA, and UNDP Product Adaptation Programmes. It is often recognised that all export activity begins from the stage of production and as such the availability of technical advice on production would enable the industry to gear itself to the requirements of the foreign markets. Let me take this opportunity to urge the industry to recognise that the process of technological change in the world economy is very fast and unless our exporters keep pace with the technical developments in the world and improve their efficiency of operations and utilisation of resources, no amount of export incentives could be enough for the exporters to remain in the export business.

In the field of export production, the TDA assisted a dozen of its clients in securing import licences for capital goods for creation/expansion of capacity for exports during 1975-76. The total imports of capital goods would be of a value of Rs 3.85 crores against an estimated export of Rs 63.4 crores over a period of 5 years. To help its clients in the execution of export orders, the TDA assisted fourteen clients in obtaining advance licences for import of raw materials and components for a value of Rs 48 lakhs. The execution of the export orders would result in foreign exchange earnings of Rs 2.5 crores. The TDA also secured import licences for prototype samples of a value of Rs 0.74 lakhs for ten clients out of its own foreign exchange allocation for import of samples for product adaptation and development.

Under its various product development and adaptation programmes the TDA has given useful services to its clients in which foreign experts were placed with the clients. These experts gave technical and marketing advice in product areas, bicycles & components, tantalum capacitors, metal-film resistors, knitwear, sports goods and automotive ancillaries. Besides identifying the export potential of individual clients in the chosen product groups, the experts have also brought to surface some gaps in the respective industries in India.

Consequent to the follow up action of the findings and recommendations made by a bicycle expert, brought to India under the Indo-German Commercial Development Programme of the TDA, the government has recently set up a panel for the bicycle industry, under the DGTD. The purpose of this panel is to review the present status of the bicycle industry and to suggest means and measures to step up the level of technology to encourage exports.

Another achievement of the TDA has been in the field of automotive ancillaries in which a very useful and prestigious contact has been established with a renowned German automobile manufacturer. For the first time, Indian firms could obtain orders from this leading automobile manufacturer for supply of specialised automotive fasteners, for fitment as original equipment on certain German vehicles. This break-through has been the result of a well-planned strategy and this could open new avenues in export of automotive ancillaries, to a number of other developed countries as well.

The TDA has now felt that there is need for giving urgent attention to the market potentials of the Middle East, Africa and other unexplored regions of the world economy. It is, therefore, felt that the TDA need not necessarily be bound by any geographical constraints so that no opportunity that is worth utilising is ignored or not tackled with due importance and alacrity. It is proposed to introduce flexibility in both the coverage of products and markets in the matter of providing services to the exporting community.

It is gratifying to note that the TDA has been providing the basic analysis much needed for the choice of appropriate trade policies. It should be recognised that a sound export thrust viable in the long run can be achieved only if the products for export promotion, markets for trade contacts and exporting units are all selected with due consideration of various economic factors such as comparative advantage, market potential, efficiency of operation etc. These choices would be possible only on the basis of systematic research studies. We are also trying to develop new promotional ideas, evolve operational criteria based upon rational economic principles for the use of the decision-makers. It is imperative that adhocism in decision-making should be replaced by rational and systematic criteria. A basic thrust for this systematic approach to the export effort comes from our reorganised Research & Analysis Division. During the past year, we were fortunate to secure, on loan, from the University of Bombay, the services of Dr. V.R. Panchamukhi, a renowned expert on International Trade, to head our Research and Analysis Division. Under his able leadership, the Research and Analysis Division has been engaged in the task of bringing about uniformity and qualitative improvement in our market research and market surveys, conceptualisation of programmes undertaken bilaterally with foreign governments and in the production of working papers on various subjects of importance which have contributed significantly to the formulation of policies and approaches by the Government of India. The quality of papers produced by the Research & Analysis Division of the TDA has been appreciated by a number of other economists associated with the Government. This Division is now engaged in the task of bringing about a happy union between the academic and practical approaches to economic research into international trade.

Lack of adequate data-base for effective operation in international trade has been one of the biggest constraints on the export promotion activities of the country as a whole. Today, of course, the TDA has a fairly well-equipped International Trade Information Centre. Yet it is not adequate in terms of the necessity that exists in the country. Because of constraints of manpower and resources, it has necessarily had to keep a low profile. The time has however come when its activities must be strengthened so that the exporting community in India can be serviced with packaged information of the kind that they require for a successful venture into the export market. It is a matter of gratification for us, that the Government selected the TDA to carry out the preparatory work for formulating the concept of a National Trade Information Centre and to design the basic elements of its nature, composition, methods and operational characteristics. The TDA's recommendations and proposals in this regard are now under consideration of the Government. It is hoped that the idea of a National Trade Information Centre will be shortly accepted and that the country will be able to have, at its disposal, a modern and efficient Trade information service utilising the latest techniques of data processing.

As is only to be expected, the way is not going to be smooth or easy. We may devise the best promotional institutions, recruit the best executives, employ the latest data processing techniques, have the best research personnel, yet, so long as the economy itself does not take the necessary strides, our export efforts must necessarily suffer from tremendous constraints. However, in the light of the progress achieved, in the last one year, and since the implementation of the 20-Point Economic Programme began, the improvement in the tempo of our economy itself indicates that we may indeed be able to reap the full benefits from the opportunities that the world seems to be offering us. We still require considerable expansion in production, significant improvement in transport facilities, induction of better technology and techniques and a more purposeful marketing thrust. This is a task that has to be shared by the Government, the industry and institutions. I can only assure you that the TDA will not fail to play its part in this endeavour.

I do not wish to burden you at this meeting with the details of constraints of manpower and resources that we face in the TDA. We have given some indication of it in the Annual Report. Let me assure you that as the Chairman of the TDA, I shall pursue these matters and ensure that activity is always supported by appropriate logistics.

Let me take this opportunity also to record a word of thanks for our many clients and well-wishers whose constant support and cooperation have been great assets for us. They have often borne patiently with our difficulties and have excused our minor defects. Some of our old friends and clients left us during the year, but many more came into our society. Those who have left—we wish them well. Those who have joined us—we welcome them. We are a growing community of seriously minded people to have undertaken the task of exploiting our export opportunities to the full. In this endeavour cooperation, trust and mutual understanding are essential. We have always found this in large measure in our associates and friends. We thank them all.

I should also take this opportunity to thank all those who have taken pains to study our proposals with care and attention and have done their best to provide us with the necessary resources.

As we have said in our Annual Report, the future is indeed a bright one. The tide is there, all that we have to do is to take it at its flood and see that it works to our advantage.

Dunlop India Chairman Reviews the Company's Progress in Its Golden Jubilee Year

Present Difficulties Will Pass Tyre Industry Has A Good Future

The following is the text of the speech delivered by Mr. W.N. Scotts, Chairman, at the 50th Annual General Meeting of Dunlop India Limited, held on the 25th June, 1976, at Calcutta.

I have pleasure in welcoming you to the 50th Annual General Meeting of your Company. This marks the Golden Anniversary of Dunlop India Limited and it is an important milestone in the life of any Company. We were incorporated as an Indian Company on the 19th August, 1926 and the passage of time has seen your Company grow to be one of the larger industrial units in the Private Sector of the Indian economy.

As the Directors' Report and Accounts for the year ended 31st December, 1975 have been in your hands for some time, I would like, with your approval, to take these as read.

From Shortage to Surplus: A Year of Profound Change in the Tyre Industry

1975 was a year of profound change for the Industry with a transformation from a situation of shortage to one of surplus. A number of factors contributed to this—the overall improvement in the availability of energy in the second half of the year, better availability of raw materials and the achievement, by a new entrant, of full scale production—but the main factor was reduced market demand. The control of inflation and the withdrawal of unaccounted money eliminated the hoarding of tyres for speculative purposes, and restrictions on credit also contributed to a de-stocking operation and a consequent reduction in current demand.

In the year under review, the Industry produced a total of 5.5 million automotive tyres, which was only marginally higher than the 1974 figure, but by year end manufacturers were holding large stocks of finished goods and there was pressure on their liquidity. The Industry is derived from and dependent upon the demand for transport, both public and private, and the demand for transport is dependent on the general level of the economy. At a generally reduced level of economic activity, the Railways, operating with greater efficiency, were able to carry a higher percentage of the total tonnage required to be moved, thus reducing the demand for road transport. All this happened at a time when the Transport industry was incurring unprecedented cost increases arising directly and indirectly from oil price escalation.

In 1975 the Tyre industry was also adversely affected by reduced production levels of cars and other light vehicles.

14% Rise in Sales

The total income of your Company reached Rs 167.44 crores, representing an increase over 1974 of 14% almost all of which was due to higher selling prices.

In the Automotive Tyre market there was a considerable change in the pattern of demand and we sold reduced quantities of car and light truck tyres. There was, however, continuing demand for heavy truck, tractor, motorcycle and scooter tyres, as well as tyres for animal drawn vehicles.

The demand for our range of Industrial Products was satisfactory and for Rubber and PVC Conveyor Belting and Fan and Vee Belts, the production capacity/licensed capacity was the limiting factor. In the case of both Rubber and PVC Conveyor Belting, the country had to augment local production by imports at considerable expenditure of foreign exchange. We have submitted proposals for increasing our production of these products to Government and we hope these will receive a favourable and quick response and will enable us to assist in reducing the necessity for further imports.

In last year's Report I commented on the reduced demand for Dunlopillo and attributed this partly to the high level of excise duty and partly to the sluggishness in consumer markets reflecting the general level of the economy. Demand fell even further in 1975 and we decided to phase out our production.

We also ceased production of cycle rims at Ambattur and concentrated production at the Sahaganj factory. There was a reduced domestic demand for rims and higher overseas freight costs have reduced the export opportunities for this light but bulky product.

Record Exports of Rs. 7 Crores Despite Keen Competition

International price competition in export markets was very keen in 1975 and this was particularly true of the automotive tyre market which right around the world, has been depressed by the same factors that affected India. There was a down turn in some sectors of our export markets, but we achieved increased sales of heavy truck tyres and the total value of automotive tyre sales rose by more than 11%. In achieving this record result we were considerably assisted by the international recognition and reputation of our brand name and the support of the Dunlop Group's international organisation.

As well as promoting the sale of our own manufactured products, we were able to increase substantially the export sales of products from the small and medium scale sectors. Apart from finding overseas markets, we have also been able to provide design and technical help to some of the smaller units so that their products might find more ready acceptance abroad. During the year we were able to increase the number of countries to which we export by three, to a new record total of 95.

Overall, we reached a record export turnover of just over Rs 7 crores, an increase of 32% in a difficult year.

Government has asked that we accept a very much higher target for 1976 and we will make every effort to meet this challenge and assist the country's foreign exchange earnings. At the same time, Government has arranged for access to imported raw materials needed for export production, the provision of natural rubber at international prices and a limited degree of financial incentive to help offset the very real disabilities, i.e. higher shipping and raw material costs, that we experience by comparison with our international competitors. These measures are appreciated by the Industry, but it is important that continuity be given to such arrangements to enable Indian exporters to commit themselves to export quotations on a longer term basis than has been possible in the past. This is critical if our export effort is to be sustained in the face of growing international competition.

CAPEXIL Award for Outstanding Export Performance

In recognition of our export achievements, we were honoured to receive a number of export awards in 1975.

These included Certificates of Merit from the Ministry of Commerce, Government of India, for the best exporter of Bicycle Rims 1972-73, Rubber Tyres and Tubes 1973-74 and a Certificate of Export Recognition from Capexil in regard to Automotive Tyres and Tubes, Cycle Tyres and Tubes and Rubber Belting 1973-74.

We were especially honoured to receive the Capexil Special Award for outstanding export performance and promotional activities 1974-75.

Power

During 1975 we again faced the problems associated with an insufficient supply of electrical energy.

At our Ambattur factory near Madras, we were subject to a 60% power cut imposed in early January and the position deteriorated even further until late in June when full power was restored.

In these circumstances, it was inevitable that we suffered a loss of production.

At our Sahaganj factory in West Bengal, we worked under power rationing and were able to operate only 16 shifts per week instead of our normal 18. We were also subject to a reduction in maximum demand but, fortunately, this has now been lifted in respect of night shifts.

Despite these restraints, we were able to increase output at Sahaganj to offset the decrease at Ambattur. Overall we produced slightly fewer automotive tyres than in 1974 and again gave priority to those products where the national need was greatest.

The availability of critical raw materials was very much easier than in the recent past and we experienced very few difficulties in this regard. We appreciate the assistance given by our suppliers who, faced with their own problems, were able to maintain supplies to us.

Comment was made in our last Report that we were seeking to instal some generating capacity and by mid year 1976 we expect to be able to provide 35% of our Ambattur power requirements and 20% at Sahaganj. In the event of future restrictions on the supply of electrical energy, we will be able to reduce the impact of such measures.

Worker-Management Co-operation to Implement 20-Point Programme

Throughout the year we experienced satisfactory industrial relations and it is pleasing to report that there is evidence of a renewed spirit of co-operation in the joint efforts of both workers and management to improve productivity.

It has long been our policy to involve workers' representatives in consultation, and our aim is for participation and co-operation to foster more responsible attitudes by all concerned and to avoid confrontation either by management or workers which can lead only to damage to all.

I would like to pay tribute to all of our people who worked so hard to overcome the disabilities of the power supply situation and difficulties in other sectors. I am confident that a continuation of this same spirit will enable us to improve further our contribution to the economy and to implement truly the spirit of the Prime Minister's 20-point programme.

One factor, however, continues to be a problem and that is absenteeism which is often a restraint on production. The provision of sufficient additional labour to offset serious absenteeism can only lead to over-manning and this has serious implications in today's competitive situation. This danger is sometimes insufficiently appreciated by those whom it may ultimately affect.

Improved Profits Through More Efficient Utilisation of Resources

A slightly higher overall volume of production, changes in product sales mix, the full year impact of revisions to selling prices made in 1974, and our continuing drive for economies in manufacturing cost and more efficient utilisation of our manufacturing resources have led to improved profitability.

The emergence of a competitive market situation has resulted in our having to carry a substantially higher finished goods inventory and a much greater level of customer outstandings than in the past. This has resulted in very much higher borrowings for working capital and a consequent increase in interest costs which rose by more than 50% over the previous year. This situation seems likely to continue into the foreseeable future and an urgent re-examination of the inventory norms set by the Tandon Committee for the Industry is called for.

Costs of distribution and of selling and administration were contained at the same percentage of turnover as in the previous year.

The raw material cost escalation of 1974 continued into early 1975 and some selling price adjustments were necessary during the first half of the year.

Technical Collaboration with State Industrial Development Corporations

The Technical Collaboration Agreements signed between the Industrial Development Corporations of West Bengal and Andhra Pradesh and Dunlop Limited, U.K. have now been taken on record by the Government of India and the two State Corporations are taking steps to implement these projects.

During 1975 your Company signed a Technical Consultancy Agreement with WEBSTAR, the Company incorporated to implement the West Bengal project, and a similar Agreement with Andhra Pradesh is under negotiation. Under these Agreements, Dunlop India Limited will provide Technical/Engineering services to enable the new factories to be erected and commissioned on the basis of the know-how provided in the U.K. in the terms of the Collaboration Agreement.

Modernisation of Sahaganj Factory Reaffirms our Faith in West Bengal

Our Sahaganj factory in West Bengal was the first Automotive Tyre plant to be established in India and we commenced production in 1936. Over the past 40 years, the factory has grown in size and complexity and in 1975 we set ourselves the task of reviewing its layout and its equipment to determine what was needed to ensure its continuance as a viable unit. As a result, we have put in hand a phased modernisation programme which will include replacement of existing steam boilers (which will still be coal fired), the installation of the most modern tyre curing equipment and the up-dating of ancillary equipment. This machinery will be made almost entirely in India. At the same time, we are reviewing the implications for our existing Industrial Licences and those Letters of Intent already held by us.

This programme of revitalisation must enable us to improve the productivity at Sahaganj without which the expenditure would be uneconomic.

Many industrial units have become uneconomic in the past and although a number of factors may have contributed to this position, it is likely that a major cause has been an inability or unwillingness to re-invest, and thus maintain or improve productivity and up-date the product range to suit the changing needs of the market.

There are many financial incentives available for the establishment of new factories in backward areas and this is a commendable policy. At the same time, it is my contention that equal incentives should be available to those organisations willing to substantially re-invest in existing units, particularly those already established in backward areas.

With our modernisation programme at Sahaganj, we are reaffirming our faith in the future of West Bengal as a major industrial area and we look forward to receiving the co-operation of those bodies that subscribe to our outlook.

Dunlop Plans to Set Up India's First Aero-Tyre Retreading Plant

We have for some years made a wide range of aeroplane tyres at Sahaganj and these meet virtually the whole requirements of our international and domestic airlines, as well as those of our defence aircraft. It has hitherto been necessary to send these tyres outside India for retreading, but we now propose to set up modern aero tyre retreading facilities at Sahaganj. This will result in significant savings in foreign exchange.

Need to Keep Pace with International Technological Development

So far as current production is concerned, we are making no remittances whatsoever in respect of overseas technical aid, even for our most sophisticated products. Despite our desire to remain as self-sufficient as possible, there is a continuing need to keep pace with international technological development, and it is our hope that the Government of India will permit us to make proper and necessary payments for the transfer of new technology beyond the level that exists in our Industry in India today.

Research & Development at Dunlop

The integrated R & D unit at our Sahaganj factory continues to work on the evaluation and development of new materials and the evolution of new designs and new methods of manufacture to provide the products for the changing requirements of our markets at minimum cost to the consumer.

The Discharge of our Social Responsibilities

The need for an awareness of social responsibility is a

matter attracting considerable comment at the present time, and I think it proper that I should review the situation as I see it in Dunlop India Limited.

I consider that the prime pre-requisite to enable us to meet our social responsibility is the ability to make a sufficient margin of profit from our operations which, in turn, enables us to meet the reasonable expectations of customers, employees and shareholders, as well as those of the other important stockholder in our business, the society in which we live.

Maintaining Business in a Viable Condition: Our First Social Responsibility

I thus see our first social responsibility as maintaining our business in viable condition and a commitment to this concept can be seen in our re-investment programme at Sahaganj. We then need to balance the costs of meeting the expectations of our various stakeholders because too great an emphasis on any one sector could result in detriment to others.

We try to be a contributory member of the society in which we live and we express this in many ways.

We give assistance to many organisations concerned with the care and uplift of the less privileged sectors of our society and particularly those working for the rehabilitation of bustee areas. Similarly, we support education for the disabled, organisations concerned with management education for young people and a wide range of recreational and cultural activities.

Dunlop Serves

As a company concerned with the Road Transport industry, wee feel that we have a special responsibility to promote safer habits for road users and, in that regard, we collaborate with the Police in the promotion of road safety education.

Generation of Employment Through Swadeshi

We have aided the generation of employment opportunities in related industries by the impetus we have provided for the indigenous development of the materials used by the rubber industry, and the assistance we have given in the design and construction of locally made rubber and tyre making equipment has made a substantial contribution to self-sufficiency in this field. We were a pioneer in the introduction of proper grading for indigenous natural rubber and continue to give support for the further development of this important raw material.

At our major factory at Sahaganj, Hooghly District, we house many of our workers and their families within the Dunlop community there, operate schools in Hindi, Bengali and English mediums and provide the facilities for co-operative stores and a wide range of recreational and cultural activities.

Remarkable Progress of Family Planning at Sahaganj

A particular feature of our Sahaganj community is a fully equipped and competently staffed hospital, which not only provides medical and surgical care for our own Dunlop family but also, through our out-patient clinics, provides medical care for a total of about 30,000 people. Ante and post-natal services and family planning are intergal parts of our health services and the average family size within our community is now about half of what it was 14 years ago. Research is also undertaken into the incidence and prevention of industrial accidents and into industrial health, and the benefits of this research are made available to others.

We started manufacturing in India some 40 yeas ago when we employed about 1500 people. Today we employ nearly 12,000 in our factories, offices and godowns, providing good opportunities for their training and development. Additionally, many more thousands derive their living from the goods and services they provide to us.

Responsibly managed large companies provide a source of strength in the economy of the country and many of them make a substantial contribution to the well-being and progress of society as a whole. Your own Company, a unit of a large international organisation, is fully aware of its social responsibility: it has tried to live up to these ideals in the past and will continue to do so in the future.

The Present Difficulties Will Pass: Tyre Industry Has A Good Future.

There has been considerable speculation abut the future prospects for the existing units within the Industry and the likely impact of the new factories that are expected to come into production in the next 12 months. Additionally, there are other Letters of intent which have yet to be converted into Industrial Licences and it seems likely that some of these may be implemented over a longer period than originally envisaged.

1976 opened with a large steck of unsold tyres all around the country and with many tyre factories working at below maximum capacity. Whilst industry in general, and the public sector in particular, have responded to the call for increased output, the missing factor has been demand.

Demand management has rightly and effectivey been used as a measure to combat a distructive inflaction rate, but the time had come when the continuation of these policies would have resulted in under-utilisation of resource and stagnation in the economy. Recovery in demand should now be assisted by the growth-oriented Budget with its large increase in plan outlay and its encouragement for savings and fresh investment.

The manufacturers of cars and jeeps and the road transport industry in general were experiencing recessionary conditions.

The reduction in excise on cars and jeeps, together with the abolition of excise on tyres, tubes and batteries that are originally fitted, will provide a measure of relief for that sector.

The increase in rail freight rates to more economic levels will marginally assist the competitiveness of the road transport industry which seeks to regain the volume of freight it held in the recent past.

The stimulus of both of these measures would, however. be more than offset if the provision in the Budget to increase excise rates for fuel for both cars and trucks was, in fact, implemented.

Real stimulation for both vehicle manufacturers' and the road transport industry will come mainly from the projected uplift in the general economy and the tyre industry will depend upon the same factors.

The maximum utilisation of existing investment and of re-investment in this sector will assist in meeting future demand, as will the two new units now coming up, and should ensure a comfortable supply position in the next two or three years. By the end of this decade, however there will be a need for more capacity than that presently installed or under construction and because of the lead time involved, it would seem that fresh investment decisions will need to be made even although present prospects look less attractive than in the recent past.

The present difficulties will pass and, longer term, the Industry has a good future.

Quality Products and Sound Trading Policies: Our Strength in 1976

With the current level of demand still below present capacity, a strongly competitive situation has developed.

We have intensified our export efforts and are presently achieving higher sales of automotive tyres than in the same period last year. In February 1976 we rationalised the selling prices of some of our tyre range giving the maximum consideration to vehicle manufacturers and to the State Transport sector. Whilst some raw materials have recently showed easier trends, the costs of many other inputs continue to rise and selling prices will be kept under review.

We expect a competitive situation to prevail during the whole of 1976 but that demand will pick up as the general level of the economy reacts to the stimulus of the Budget.

Our wide range of good quality products and our sound trading policies will continue to be a source of strength in 1976.

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

DUNLOP INDIA LIMITED

South India Viscose Ltd.

Shri R. Venkataswamy Naidu's Review

Speech of the Chairman, Sri. R. Venkataswamy Naidu, delivered at the 18th Annual General Meeting of the Share-holders held on Monday, the 28th June 1976 at 3.00 P.M. at the Regd. Office of the Company, 'Shanmuga Manram', Race Course, Coimbatore-641 018.

Ladies & Gentlemen,

It gives me a great pleasure to welcome you to the 18th Annual General Meeting of the Company.

It is with profound regret I must recall the sudden and sad demise of our beloved Kamaraj. He was a friend, philosopher and guide for the entire country and more so for the Tamil Nadu. It is a be-fitting tribute that the Government of India had thought it fit to confer on him the highest award of our land 'Bharat Ratna' posthumously. Your Company has very pleasant

Shri R. Venkataswamy Naidu

memories of the long Association, active help and co-operation rendered by the late Kamaraj during his stewardship as the Chief Minister of Madras. I propose a condolence resolution be passed and communicated to the bereaved family.

The year under review started under very difficult and trial period for our country. The international oil crisis and unprecedented inflationary tendencies have thwarted the progress of the developing and under-developed countries. Even the highly well developed countries were struggling very hard to keep down the inflationary tendencies. The general economic conditions in the country affected very much the Industry and Trade, and as a result, the plight of the common man became very miserable.

It was at this juncture, the declaration of Emergency in our country gave a new direction to contain and reverse the inflation and also a big boost to the Indian Economy.

At the time, the Emergency was declared, there were criticisms from and apprehensions in the minds of quite a number of people in the country and abroad, *because* of the measures taken for effective enforcement of discipline in the Country; but, when the encouraging and fruitful results were forthcoming, there has been jubilance amongst our countrymen. Even those countries which were criticising the declaration of emergency, have started praising the dynamic approach to the problems by our beloved Prime Minister, especially with regard to the 'Twenty Point Programme' initiated by her and being followed throughout the Country. Appreciations from the United Nations and the encomiums paid recently by the Prime Minister of Australia are quite a few to cite as examples to show how well our Country has been steering itself in the right direction ever since the declaration of the emergency.

The progress in the sphere of agriculture and industry is indeed remarkable. We can say with pride and satisfaction that the Indian Economy has been set securely on the path of stability and growth. The Indian Currency has also come up to creditable level.

I am sure all of you will join me in congratulating our Finance Minister for having drawn up a budget different in many respects from the previous ones. The budget proposals are bold, imaginative, growth oriented and rural biased. The budget has taken into consideration, all sections of the people in the country, laying more emphasis on the need to protect the interests of the common man and at the same time providing incentives to Private Sector to accelerate the growth of the industries.

Having contained inflation, it is worthwhile the Government considers granting more relief by way of reduction in excise duty, sales tax, octroi, lesser bank interest rates etc., which would go a long way in cutting down the cost of industrial production and at the same time ensure availability of goods for internal consumption at reduced prices. This will in effect contribute to export to a large extent, thereby getting valuable foreign exchange to the Nation.

Review of the Working of the Company:

Now, I would like to invite your attention to the affairs of our Company, though you would have gone through the report of the Board of Directors.

Unfortunately, during the year under review, there was a downward trend in the production of Rayon Yarn to the extent of 16%, Staple fibre to the extent of 63% and Wood Pulp to the extent of 19%, compared to last year. This could mainly be attributed to the prolonged power cut extending to several months and the strike resorted to by the workers, which is regrettable. I am, however, happy indeed to record that normal relationship with the workers has since been restored and further there has not been any power cut so far and so it is my hope that subject to present conditions continuing to prevail, there is every possibility of greater production.

During the end of the year under review, the prices of Staple Fibre and Rayon came down heavily and movement of goods even at such reduced prices was very slow. Special discounts had to be given to our dealers for the movement of stocks. Because of increased costs and lesser sales realisation, the profitability was very much affected. Considering the various difficulties and adverse conditions with which we had to go through during the year, the Company's working results should be considered satisfactory.

You will be pleased to hear that our products are entering the Export market. To start with we are making arrangements for the export of Rayon yarn to Italy.

Bonus Shares were allotted to all the members of the Company and respective Share Certificates were despatched within the record time set by the Controller of Capital Issues.

Expansion:

Your Company has been making effective strides with regard to the expansion projects. It may be of interest to you to know that an Industrial Licence for the manufacture of 20 tons per day of Polynosic Fibre has been received from the Government of India. For expansion, it is our earnest desire to restrict borrowings and to depend mostly on our own internal resources and generation of funds.

The doubling of the capacity of Pulp Plant from 60 tons to 120 tons per day has been going on in full swing. It has been decided to expand the capacity in two stages (from 60 tons per day to 90 tons per day and from 90 tons to 120 tons per day). The first stage of increasing the capacity of the Pulp Plant (90 tons per dey) is expected to be completed by the end of this year. By the end of next year or in the beginning of 1978, the expansion of the Pulp Plant is expected to be completed. Most of the items are to be procured indigenously and orders have already been placed for many of the items. The technicians from Italy, deputed by our Collaborators and M/s. Dastur & Co., our Consulting Engineers, have already started working on the project and are doing their best to keep to the schedule.

I am glad to inform you that your Company will be participating in setting up of an industrial Unit in Malaysia for the manufacture of Wood Pulp suitable for Rayon and Paper. This is a joint venture with our Collaborators and local promoters in Malaysia. You will be happy to know that 'Pioneer Status' has been awarded to our local promoters by the Malaysian Government. Negotiations are still in progress.

Supply of Pulp Wood—Raw Material:

The position of our raw material continues to be satisfactory. We have made adequate arrangements with the Tamil Nadu Government for allotment of areas both at Nilgiris and Kodai hills. Further, to meet the increased needs, because of our expansion projects, various tests have been conducted to find out the suitablity of other species, like Grandis and Hybrid both in our factory and in the pilot plants of our Collaborators, M/s. Snia Viscosa, and the results of these tests have been quite encouraging.

Despite our various requests, the Government of Tamil Nadu are demanding a steep upward revision on the existing lease rates for allotment of forest areas and I hope that the Government will give sympathetic consideration to the lease rates.

Labour Relations:

After the unfortunate strike during the year, the relationship with the labour continues to be cordial. For the benefit of our employees, the Company is advancing loans under 'Own your Home' Housing Scheme. The Group Insurance Scheme with the L.I.C. continues to be in force for the benefit of all the employees and their dependants.

Conclusion:

In general, the performance of the Company for the year under review is satisfactory as could be seen from the report of the Board of Directors and the Balance Sheet. Before I conclude I would like to take this opportunity to thank our Collaborators, Bankers, Contractors and Employees of the Company at all levels, who have been giving their best for the progress of the Company in all respects.

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

RECORDS AND STATISTICS

Joint ventures abroad

EVEN THOUGH our country started establishing joint ventures abroad only a few years ago, as many as 239 proposals had already been sanctioned by the government of India till the end of last year. No less than 67 were already in production while 68 were under various stages of active implementation. The fields in which these joint ventures had been implemented by Indian companies included several items ranging from textiles, leather, PVC leather cloth, flour, glass bottles, vegetable oil, pharmaceuticals and PVC items to diesel engines, pumps, paper, light engineering goods, tubewells, commercial vehicles, razor blades, automobile ancillaries and hacksaw blades. The list of joint venture projects abroad which are at various stages of completion and production is given below:

Indian Industrial Joint Ventures Abroad
(As on March 31, 1976)

Sl. No.	Field of Collaboration	Indian Collaborator	Date of Sanction	Remarks
		Afghanistan		
1.	Corrugated boxes & other packing materials	M/s. Everest Packaging Corpn., 25, Mahal Industrial Estate, Mahakali, Bombay.	21-5-74	In production
2.	Leather Tannery	M/s. T. Abdul Wahid & Co., 19. Vepery-High Road, Periamet, Madras.	15-9-72	Under implementation
3.	Corrugated board and carton	M/s. Box Well India Pvt. Ltd., Box House, 54-A, Andheri-Kurla Road, Andheri (East) Bombay-400093.	30-12-75	Under implementation
		Canada		
1.	Hardboard	M/s. Anil Hardboard Ltd., P.B. No. 110056, Laxmi Insurance Building, Sir P.M. Road, Bombay.	23-7-65	Started production in July, 1967. Since. Indian party disinvested their equity.
2.	Indian Rum	M/s. Baumgadton and Wallia Pvt. Ltd., 2E, Valoom Insurance Building, Veer Nariman Road, Bombay-400 020.	26-12-75	Under implementation
3.	Reprocessing & marketing shrimp	M/s. Southern Sea Food Ltd., Montieth Court, Monteith Road, Madras-600008.	15-3-76	Under implementation
		Dubai		
1.	Cylinders	Mr R.M. Gokuldas, 53/57, Laxmi Insurance Building Sir P.M. Road, Fort, Bombay.	21-4-74	Under implementation
2.	Fabricating architectural equipments	M/s. Ajit India (P) Ltd. 408, Himalaya House, Potton Road, Bombay.	12-12-74	Under implementation
3.	Sulphuric acid	M/s. Phoenix Distributors (P) Ltd. 53/57, Laxmi Insurance Building, Sir P.M. Road, Fort, Bombay.	28-12-74	Under implementation
4.	CausticSoda/Chlorine plant	M/s. The Ballarpur Paper & Straw Board Mill, Thapar House, 124, Janapath, New Delhi.	15-7-75	Under implementation
5.	Consultancy Services	Mr C.P. Kukreja, K-13 Hauz Khas Enclave, New Delhi-110016.	16-2-76	Under implementation
		Ethiopia		
1.	Textile	M/s. Birla Bros, 9/1, R.N. Mukherjee Road, Calcutta.	29-5-56	Started production in 1960

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Sl. N.	Field of Collaboration	Indian Collaborator	Date of Sanction	Remarks
		Fiji		
1.	Flour Mill	M/s. Wallace Flour Mills, 99, Churchgate Reclamation, Bombay.	12-5-71	In production
2.	Glass Bottles	M/s. Mohan Meakin Breweries, Mohan Nagar, Ghaziabad.	17-3-75	Under implementation
		Philippines		
1.	Diesel Engines	M/s. Kirloskar Oil Engines, Elphinstone Road, Poona-3.	16-1-70	In production
2.	Direct coconut processing plant	M/s. Chemical Construction Co., 29, Ring Road, Lajpat Nagar IV, New Delhi.	24-2-74	Under implementation
3.	Spinning Mill	M/s. Eastern Spg. Mills Ltd., Vill. Piragacha, P.O. Kadamgachhi, Distt. 24, Parganas, West Bengal.	28-1-75	Under implementation
4.	Copra crushing and extraction	M/s. Tungbhadra Industries Ltd., Industry House, High Way, Chakla, Andheri (East) Bombay.	1-9-75	Under implementation
		Hong Kong		
1.	Engineering Consultancy	M/s. Development Consultants Pvt. Ltd., 24-B, Park Street, Calcutta.	19-10-74	In production
2.	Stationery Items	M/s. Kores (I) Limited, P.B. No. 6558, Plot No. 10, Dr. Moses Road, Worli, Bombay.	10-9-73	Under implementation
		Indonesia		
1.	Textiles	M/s. Century Spg. & Mfg. Co. Ltd., Industry House, 199, Churchgate Reclamation, Bombay.	10-5-73	In production
2.	Engineering Steel Files	M/s. Raymond Woollen Mills, J.K. Building, Morarjee Marg, Ballard Estate, Bombay.	19-6-74	In production
3.	Spinning Plant	M/s. Bharat Commerce & Industry Ltd., Surya Kiran, 5th Floor, 19, Kasturba Gandhi Marg, New Delhi.	1-7-74	In production
4.	High tensile reinforcement	M/s. ASC Engineers & Consultants, C/o M/s. Andhra Steel Ltd., 2, Brabourne Road, Calcutta.	13-9-74	Under implementation
5.	Cold rolled box strappings	M/s. Southern Steel Ltd. 2, Brabourne Road, Calcutta.	12-9-74	Under implementation
6.	Water meters	M/s. Mahindra & Mahindra, Gateway Building, Apollo Bunder, Bombay.	3-1-73	Under implementation
7.	Textiles	M/s. Karamchand Premchand (P) Ltd., P.B. No. 28, Shahibag House, Shahibag, Ahmedabad-3.	11-10-73	-do-
8.	Oilseeds solvent extraction	M/s. Kusum Products Ltd., Bombay Mutual Building, 9, Brabourne Road, Calcutta.	29-3-75	-do-
9.	Coated Art Paper	M/s. Ballarpur Paper & Straw Board Mills Ltd., Thapar House, 124, Janpath, New Delhi.	27-8-75	-do-
10.	Steel furniture	M/s. Godrej & Mfg. Co., Godrej Bhawan, Home Street, Fort, G.P.O.P.B. No. 10123, Bombay.	4-2-76	Under implementation

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Sl. No.	Field of Collaboration	Indian Collaborator	Date of Sanction	Remarks
11.	Malleable iron pipes	M/s. Vishal Malleables Pvt. Ltd., 8, Kailash Society, Ashram Road, Ahmedabad.	10-10-75	Under implementation
		Iran		
1.	Spare parts/automotive components	M/s. Mahindra & Mahindra, Gateway Building, Apollo Bunder, Bombay.	5-11-66	Started production in July, 1969
2.	Construction of various projects	M/s. Shah Construction Co. Ltd., Shah House, Dr. Annie Besant Road, Worli, Bombay.	25-8-75	In production
3.	Shock Absorbers	M/s. Gabrial India Limited, S-304, Agra Road, Mulund, Bombay.	13-9-74	Under implementation
4.	Steel Bright Bars	M/s. Chase Bright Steel Ltd., Meher Chambers, Nicol Road, Ballard Estate, P.B. No. 1704, Bombay.	15-9-75	Approved in principle
5.	Automotive Shock Absorbers	M/s. Escorts Limited, Engineering Division, 18/4 Mathura Road, Faridabad.	2-2-76	Under implementation
		Ireland		
1.	Tufted Carpet Yarn	M/s. Mafatlal Industries Ltd., Mafatlal House, Backbay Reclamation, Apollo Bunder, Bombay.	15-10-68	Started production in September, 1970
		Iraq		
1.	Civil Construction Jobs	M/s. National Building Corpn. Limited, New Delhi.	26-12-75	Under implementation
		Kenya		
1.	Textiles	Mr R.M. Goculdas, 53/57, Lakshmi Insurance Bldg., Sir P.M. Road, Bombay.	26-9-54	Started production in October, 1965.
2.	Gripe Water	M/s. K.T. Dongre & Company, 82, N. Medows Street, Bombay-1.	16-2-66	Started production in October, 1967.
3.	Woollen Textiles	M/s. Raymond Woollen Mills, J.K. Building, Dougal Road, Ballard Estate, Bombay.	25-3-66	Started production in January 1969.
4.	Cork Factory	M/s. Indian Cork Mills, Saki Vihar Road, Powai, Bombay.	7-1-67	Started production in March, 1967.
5.	Paper and Pulp project	M/s. Orient Paper Mills, 9/1, R.N. Mukerjee Road, Calcutta.	14-6-73	In production
6.	Cast iron foundry	M/s. Salvi Super Structures, Dr. Rajindra Prasad Road, Mulund, Bombay.	4-5-72	-do-
7.	Pharmaceuticals	M/s. Sarabhai Chemical (P) Ltd., P.B. No. 28, Shahi Bag House, Ahmedabad.	16-4-73	-do-
8.	Synthetic filament yarn	M/s. J.K. Synthetics, J.K. Nagar, Kota (Rajasthan).	9-5-74	Under implementation
9.	Pipe fittings	M/s. Sohinder Singh Bros., 110, Jullundur City.	3-3-76	-do-

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Sl. No.	Field of Collaboration	Indian Collaborator	Date of Sanction	Remarks
		Mauritius		
1.	Mosaic tiles, rolling shutters	M/s. Siddhartha Jesubhai Lalbhai Near Bazirats Pole, Sankadi Sha, Raipur, Ahmedabad.	14-2-69	Started production in July, 1969.
2.	Textiles	M/s. Orkay Group, Kurla-Andheri Road, Sahu Naka, Bombay.	9-2-71	Started production in 1972.
3.	Readymade garments	M/s. Raymond Woollen Mills, J.K. Bldg., Narottam Morarjee Marg, Ballard Estate, Bombay-35.	19-1-72	In production
4.	Terry towel manufacturing unit	M/s. Karamchand Premchand Ltd., P.B. No 28, Shahibag House, Shahibag, Ahmedabad.	12-3-74	In production
5.	Steel rolling mill	M/s. Infin Consultants Ltd., Maher Bhawan, No. 2, 5th Floor, New Marine Lines, Bombay.	17-10-74	In prodction
6.	Hotel project	M/s. United Agencies Pvt. Ltd., Udyog Bhawan, Walchand Hirachand Marg, Ballard Estate, Bombay.	21-3-71	Final approval issued on 21-1-72. Under implementation.
7.	Cement plant	W/s. K.C.P. Limited, P.B. No. 2278, Tiruvottiyuri, Madras.	21-7-71	Final approval issued on 3-1-73 Uunder implementation.
8.	PVC insulated household cables, wires etc.	M/s. Delton Cable Industries Pvt. Ltd., Delton House, Bharat Ram Road, 24, Darya Ganj, Delhi.	29-4-75	Under implementation
9.	Power driven pumps	M/s. Kirloskar Bros. Ltd., Udyog Bhawan, Tilak Road, Poona-411002.	18-10-75	Under implementation
10.	Five star hotel	M/s. Concord International Pvt. Ltd., 5, Golf Links, New Delhi-110003.	18-12-75	Under implementation
		Malaysia		
1.	Cotton Textiles	M/s. Birla Bros., Birla Lines, Sabzi Mandi, Delhi.	9-10-64	Started production in May, 1971
2.	Steel furnitures	M/s. Godrej & Boyce, 4-A, Home Street, Fort, Bombay.	30-8-65	Started production in May, 1968
3.	Glass Bottles	M/s. J.G. Glass Industries (P) Ltd., Cooperative Inc. Building, Sir P. Milto Road, Poona.	March 1968	In production since 26-11-73
4.	Confectionery	M/s. Parrys Confectionery, Parry House, Second Line Beach, Parry's Corner, Madras.	18-3-69	Started production on 1-1-1971.
5.	Electric motor pumps, (Diesel)	M/s. Kirloskar Electric Co., P.B. No. 1017, Malleswaram, Bangalore-3.	9-6-69	Started production in 1972.
6.	Precision tools & gauge Mfg. unit	M/s. Gupta Machine Tools (P) Ltd., 50-B, Garihat Road, Calcutta.	22-7-69	Started production on 1-1-1971.
7.	Enamelled copper wire & electric accessories	M/s. Ajit Industries, G.P.O. Box No. 1558, Bombay.	7-11-69	Started production on 3-12-71.
8.	Steel Foundry	M/s. Mukund Iron & Steel works Ltd., Bankers, Kurla Andheri Road, Bombay-70.	21-1-71	In production since March 1973.
9.	Time & automobile chains	M/s. L.G. Balakrishnan & Bros., P.B. No. 1303, India House, Coimbatore-IV.	9-2-71	Started production in April, 1972.

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Sl. No.	Field of Collaboration	Indian Collaborator	Date of Sanction	Remarks
10.	Cycle & industrial chains	M/s. Murugappa & Sons, Tiam House, 11-12, North Beach Road, Madras.	20-2-71	Started production on 30-1-1972.
11.	Palm Oil fractioning plant	M/s. Berar Oil Industries, Industry House, 159, Churchgate Reclamation, Bombay-70.	28-7-71	In production.
12.	Hydrogenation of Oil	M/s. Chemical Construction Co., 29, Ring Road, Lajpat Nagar IV, New Delhi.	18-1-72	In production.
13.	Stationery items	M/s. Camlin (P) Ltd., Bombay Kurla-Andheri Road, Bombay. (J.B. Nagar).	21-5-73	In production.
14.	Cosmetics and pharmaceuticals	M/s. C.I.P.L.A., 289, Bellasis Road, Byculla, Bombay-70.	28-9-73	In production since 1973.
15.	Safety glass	M/s. Hindustan Safety Glass, 1st, George Gate, Hasting Road, Calcutta.	21-1-71	In production.
16.	Vanaspati, soap etc.	M/s. Tata Oil Mills Ltd., Bombay House, 24, Bruce Street, Fort, Bombay.	11-3-71	In production.
17.	Piston components	M/s. Indian Pistons Ltd., Huzur Gardens, Sembiam, Madras.	12-5-71	In production.
18.	Sugar factory	M/s. Phalton Sugar Works Ltd., 199, Churchgate Reclamation, Bombay.	25-2-72	In production since 12-2-73.
19.	Tube valves	M/s. Vinod Sanghi, C/o Sah & Sanghi, Prakash Mills, Compound, Globe Mills Passage, Bombay.	28-12-72	In production.
20.	Textiles	M/s. Lakshmi Textile Exporters, 341, Avanashi Road, Coimbatore.	11-1-73	In production.
21.	Flux cord solid solder wire etc.	M/s. Saru Smelting (P) Ltd., Sarunagar, Sardhana Road, Merrut, UP.	13-3-74	In production.
22.	Graphic Anodising	M/s. Excel Process Pvt. Ltd., 117/118, Andheri-Kurla Road, Chakla, Andheri (East), Bombay.	11-4-75	In production.
23.	Industrial & Management Consultancy	Oriole Service & Consultants Pvt. Ltd., 4, Kurla Industrial Estate, Ghatkapar, Bombay.	30-4-75	In production.
24.	Biscuit factory	M/s. Sundarajan & Co., Indian Chamber Bldg., 1st Floor, P.B. No. 1558, Esplanade, Madras.	8-3-72	Approved in principle.
25.	Pharmaceutical plant	M/s. Sarabhai 'M' Chemicals, P.B. No. 80, Baroda.	23-9-74	Approved in principle.
26.	Sandalwood Soap	M/s. Mysore Govt. Soap Factory, P.B. No. 1031, Bangalore.	28-1-72	Under implementation.
27.	Fatty acid, Glycerine	M/s. Chemical Construction Co., 29, Ring Road, Lajpat Nagar IV, New Delhi.	30-8-72	Under implementation.
28.	Metallic flexible tubes and hoses	M/s. Zaverchand Gaekward (P) Ltd., P.B. No. 95, Baroda.	13-1-73	Under implementation.

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Sl. No.	Field of Collaboration	Indian Collaborator	Date of Sanction	Remarks
29.	Tubular heating elements	M/s. Harsha Electric Appliances, UCo. Bank Building, Parliament Street, New Delhi.	11-6-73	Under implementation.
30.	Pumps	M/s. Jyoti Limited, P.O. Chemical Industries, Baroda-390003.	14-1-74	Under implementation.
31.	Radiator oil coolers	M/s. Universal Radiators Pvt. Ltd., Mettupalayam Road, Coimbatore.	14-5-74	Under implementation.
32.	Nylon and polyseter yarn and fabrics	M/s. Garware Nylons Ltd., Chander Mukhi Building, Nariman Point, Bombay.	29-5-74	Under implementation.
33.	Spinning Mill	M/s. Kwality Textiles Associates Pvt. Ltd., Pollachi Udamalpet Road, Pollachi, Tamil Nadu.	25-6-74	Under implementation.
34.	Direct cocount processing plant	M/s. Chemical Construction Co., 29, Ring Road, Lajpat Nagar IV, New Delhi.	19-3-75	Under implementation.
35.	Auto Parts Electrical	M/s. Auto Electric Enterprises Pvt. Ltd., 17, 2nd Pophalwadi, Bhuleshwar, Bombay.	29-4-75	Under implementation.
36.	Assembly plant for commercial vehicles	M/s. Tata Engg. & Locomotive Co. Ltd., Bombay House, 349, Homi Modi Street, Fort, Bombay.	5-8-75	Under implementation.
37.	Handling Equipment	M/s. Kanak Engg. Pvg. Ltd., Tisfor House, D-99A, Defence Colony, New Delhi-110024.	7-11-75	Under implementation.
38.	High Density Polyethylene	M/s. Polyolefins Industries, Mafatlal Centre, Nariman Point, Bombay.	17-10-74	Under implementation.
		Abu Dhabi (UAE)		
1.	Engineering Unit	M.s Simon Carves India Ltd., Nirlon House, 254, 5. Dr. Annie Besant Road, Worli, Bombay.	26-9-75	Approved in principle
		Muscat (Sultanate of Oman)		
1.	Trading Company	M/s. Tata Exports Limited, Block-A, Shivasgas Estate, Dr. Annie Besant Road, Worli, Bombay.	17-10-75	Under implementation.
2.	Consultancy Services	Mr. C.P. Kukreja K-13, Hauz Khas Enclave, New Delhi.	16-2-76	Under implementation.
		Nigeria		
1.	Engineering Goods	M.S Birla Bros., 9/1, R.N. Mukherjee Road, Calcutta.	26-9-63	Started production in 1966.
2.	Razor blade factory	M/s. H.L. Malhotra & Sons, 12, New C.I.T. Road, Calcutta.	2-1-65	Started production in May, 1970
3.	Consultancy Unit	M/s. Birla Brothers Pvt. Ltd., 9/1, R.N. Mukherje Road, Calcutta.	3-11-73	In production.

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Sl. No.	Field of Collaboration	Indian Collaborator	Date of Sanction	Remarks
		Nepal		
1.	Jute Mill	M/s. Rajasthan Fertilizers and Chemicals Corpn. Ltd., 5, Mission Row, Calcutta.	7-11-74	Under implementation.
		Singapore		
1.	Automobile accessories	M/s. Teksons (P) Limited Modi Chambers, Bombay.	1-7-70	In production.
2.	Shipping	M/s. G.K. Singhahia. J.K. Building, Bombay.	27-2-73	Under implementation.
3.	Stearic Acid	M/s. Chemical Construction Co. 29, Ring Road, Lajpat Nagar IV, New Delhi.	24-9-73	Under implementation.
4.	Automobile Streights etc.	M/s. Ramon & Demm Limited, Ramon House, Backbay Reclamation, Bombay.	2-7-74	Under implementation.
5.	Enamelled Wire	M/s. Southern Industrial Corpn. Ltd., 99, Armenian Street, P.B. No. 113, Madras.	19-5-75	Under implementation.
6.	Concentrates for soft drinks	M/s. Parle (Exports) Pvt. Ltd., Western Express High Way, Chakla, Andheri (East), Bombay.	2-9-75	Under implementation.
7.	Erection and Technical Services	M/s. I.B.I. Pvt. Limited, I.B.I. House, 6-86, Andheri Kurla Road, Bombay.	28-2-74	Under implementation.
		Saudi Arabia		
1.	Rubber ring and other rubber products	M/s. Deccan Enterprises Pvt. Ltd., 8570-A, Rashtrapati Road, Secunderabad.	27-10-75	Under implementation.
		Sri Lanka		
1.	Sewing Machines	M/s. Jay Engg. Works, P.B. No. 2158, Calcutta.	6-11-61	Started prodction in February 1962
1.	Glass factory	M/s. Swastic Glass Works, Chandarpur.	28-1-67	Started production in August 1969.
3.	PVC Leather Cloth	M/s. Bhor Industries, 4-24, Asaf Ali Road, New Delhi.	5-10-69	In production since March, 1969.
4.	Auto Electrical Parts	M/s. Sahney Steel Press Works, 27, Kirol, Near Vidyanihan Station, Bombay.	30-8-72	Approved in principle.
		Thailand		
1.	Synthetic Fibre spg. unit	M/s. Birla Bros. Limited, 9/1, R.N. Mukerjee Road, Calcutta.	7-3-69	In production.
2.	Steel Mill	M/s. Sacha Exporters & Investment (P) Ltd., Denkaron Building, 1st Floor, Nariman Circle, Bombay.	24-6-69	In production.
3.	Textile Mills	M/s. Jagatjit Cotton Mills Ltd., 124, Janpath, Thapar House, New Delhi	20-8-74	In production.
4.	Viscose Staple Fibre Plant	M/s. Gwalior Rayon Mfg. & Wvg. Co. Ltd, Birlagram, Nagda, MP.	12-2-74	Under implementation.
5.	Semi Conductors	M/s. The remadyne Pvt. Ltd., 24 Km., Mathura Road, Faridabad.	15-7-74	Under implementation.

Sl. No.	Field of Collaboration	Indian Collaborator	Date of Sanction	Remarks
6.	Hacksaw Blades	M/s. Hada Steel Products Ltd., No. 3, Sector 15-A, Faridabad.	13-2-75	Under implementation.
		Uganda		
1.	Jute Mill	M/s. Birla Jute Mfg. Co., Birlapur, 24, Parganas, Calcutta.	7-3-69)	Started production in Jan. 1971.
		United States of America		
1.	Restaurant	M/s. Ghai Lamba Catering Consultants (P) Ltd., Marshall House, 1, Hanuman Road, New Delhi.	22-1-73	In production
2.	Restaurant	M/s. Ghai Lamba Catering Consultants (P) Ltd., Marshall House, 1, Hanuman Road, New Delhi.	18-5-74	In production
3.	Restaurant	M/s. Krishna Hotels Ltd., 155/1-B, Mowbrey s Road, Madras.	28-12-74	In production.
4.	Restaurant	M/s. Shalimar Hotels (P) Ltd., August Kranti Marg, Bombay-36.	28-12-74	In production.
5.	Magnet Wires	M/s. Auto-Electricals Limited, 21, Old Court, House Street New Delhi.	24-9-75	Approved in principle.
6.	Restaurant	M/s. Hotel Rajdoot (P) Ltd., Mathura Road, New Delhi.	13-2-75	Under implementation.
7.	Consultancy Service	M/s. Amar Dye-Chem Ltd., Rang Udyan, Sitladevi Temple Rd., Mahim, Bombay.	19-6-75	Under implementation.
		United Kingdom		
1.	Asbestos Cement Products	M/s. Birla Bros Limited, 9/1, R.N. Mukherjee Road, Calcutta.	24-6-65	In production since 1967.
2.	Sweetmeat Factory	M/s. Royal Fancy Sweet-Meat-Saloon, H.O. Baria Mansion, Saran Street, Opp. Crawford Market, Bombay.	20-12-72	In production since January 1974.
3.	Restaurant	M/s. Ghai Lambe Catering Consultants (P) Limited, Marshall House, 1, Hanuman Road, New Delhi.		In production.
4.	Restaurant	M/s. Park, Hotel, 17, Park Street, Calcutta-700016.	25-10-75	Under implementation.
		West Germany		
1.	Oil Engines, Rice Milling Machines etc.	M/s. Kirloskar Oil Engines (P) Limited, Elphinstone Road, Poona-3.	24-4-65	Started production in January 1967.
		Zambia		
1.	Drum, drum reconditioning	M/s. Zetrox Pvt. Limited, Antop Hill, Wadala, Bombay.	25-2-75	Under implementation.
2.	Assembly of Tractors and Agricultural Equipments	M/s. International Tractor Co. of India Limited, Gateway Building, Apollo Bunder, Bombay.	22-7-75	Under implementation

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eastern ECONOMIST

VOL. 67 NO. 2 JULY 9, 1976

Price Rupees Two

A blueprint for exports

Now THAT exports from this country have started increasing both in value and volume, a dialogue between the government and the business community becomes all the more essential in order to consolidate the gains already made and to win over a rising share of the world trade. The study made by the Federation of Indian Chambers of Commerce & Industry (FICCI) regarding export and production perspectives till 1980-81 is timely in the sense that it provides an opportunity to discuss the ways and means which need to be adopted for raising both production and investment in this country to support the export effort (see Records and Statistics, page 121).

A detailed analysis of our exports indicates that the number of goods covered runs into thousands while the markets fed number more than 100. However, ten major products exported to ten leading markets account for 60 per cent of our exports. And the share can certainly be enhanced further provided the export surpluses in adequate quantities can be generated. But it will be unwise to do so at the cost of domestic consumption which might cause unnecessary tensions in the economy. True our agricultural exports constitute only six per cent of farm output while industrial exports consist of eight per cent of industrial production; these percentages in themselves seem small but any sharp increases in them might generate hardships in the domestic market. Hence the FICCI has rightly emphasised the importance of increasing domestic production before venturing to cultivate new markets or enhancing exports to traditional markets.

Says the FICCI study: "As a general guideline, export should not exceed 25 per cent of domestic production. Of course, this guideline cannot be rigidly applied in all cases. Industries like tea, coffee, jute, etc already export about a half of the total domestic output. By and large, if exports are limited to 25 per cent of industrial production, the economy will be in a better position to absorb external fluctuations". But even raising the share of exports from eight to 25 per cent of domestic industrial production will need Herculean efforts at various levels. And there does not seem to be any sanctity or econometric validity about the percentage prescribed; the movement upwards of exports will have to be slow and steady and not in jerks if it is to have some abiding value.

For example, it is estimated that in order to be able to increase the export of engineering goods by Rs 752 crores in 1980-81 over 1974-75, the improvement in domestic production will have to be of the order of Rs 4,424 crores. Similarly, for increase in the exports of jute manufactures by 35,000 tonnes, domestic output will need to be raised by 161,000 tonnes. Similar indicative targets have been set down for tea, coffee, tobacco (unmanufactured), sugar, marine products, non-essential oils, coal and coke, iron ore and cement, art silk fabrics, cotton textiles (mill-made), cotton textiles (handloom and powerloom), chemicals and allied products, rubber manufactures, leather and leather products, cashew kernals, spices, rice, and coir and coir goods (see Records and Statistics, page 121).

There is no doubt that some of the export targets set for 1980-81 can be achieved without much effort. This applies particularly to cement and sugar. In the case of cement, the State Trading Corporation exported 400,000 tonnes in 1975-76. The central ministry of Industry and Civil Supplies is of the opinion that cement exports can be raised to a million tonnes in 1976-77 and for this purpose, the necessary measures are being taken. For example, the STC has been persuaded to forego its monopoly in the export of cement and to let the private exporters try their hand at it. The manufacturers of cement and the

Industry ministry are agreed that the Gulf countries provide a lucrative outlet for cement and that intensive efforts need to be made — more intensive than it has been possible for the STC to put in.

In order to raise the exports of cement, a high-level committee has been formed; it includes representatives of the leading cement manufacturers, the STC and the joint secretary of the ministry of Industry as chairman. With rising availability of cement, this committee may be able to increase its exports up to two million tonnes much before 1980-81. In the case of sugar also, the target of two million tonnes may be reached well ahead of 1980-81 if vigilance and pragmatism of the same order is exhibited as has been the case with cement. As stated by Mr Vinod Parikh in an exclusive interview to *Eastern Economist* (EE dated July 2, 1976; page 24) the export of sugar in 1975-76 was as high as 1.2 million tonnes. With a little more effort, domestic production can be raised — notwithstanding the setback in production in the current year — by two million tonnes so as to reach the target set down for 1980-81.

intractable problems

The sharp increase in output in cotton textiles envisaged would however pose certain intractable problems such as the paucity of raw cotton and the out-moded character of machinery. In our effort to increase food production, some of the cash crops such as cotton have not received the priority in planning as they deserved. Consequently, substantial gap between the demand and supply of cotton remains necessitating large imports from abroad. At the time of writing, the government is thinking of importing not less than 150,000 bales of cotton before the arrival of the new crop. Thus, only two alternatives are open to us. Either to raise the domestic production of cotton or to be prepared to import increasing quantities of this fibre. The proposed step-up in domestic production of cotton textiles (mill-made, handloom and powerloom) by 1358 million metres will need sizeable increase in imports of cotton and the foreign exchange account will have to provide for it. Moreover, to be competitive in the world markets, the modernisation of the cotton mills will require substantial investment for which the financial institutions will be called upon to make adequate arrangements.

The study under reference has estimated that additional investment of the order of Rs 1817 crores will be needed for hitting the suggested targets of exports in 1980-81. The highest investment at Rs 671 crores is computed for the engineering industries followed by Rs 460 crores for iron ore, Rs 190 crores for chemicals, Rs 170 crores for cement, Rs 26 crores for silk and art silk and Rs 300 crores for others. This investment is besides what is required to establish capacity for domestic production. The investment of the order of Rs 600 crores a year merely for the export industries for the next three years will mean saving up to a little less than one per cent of the Gross National Product (GNP) to finance the export industries. The link-up with the GNP does give a simplistic interpretation to the effort required which however cannot but exert heavy pressure on available resources on which claims of other sectors will be equally pressing.

Whatever the size of the challenge, the government and the industry in this country can face it provided the mutual trust is further strengthened. The strangulating restrictions in relation to licensing, price control, Monopolies and Restrictive Trade Prictices, Foreign Exchange Regulation Act and import control will need to be done away with if a breakthrough in exports is to be achieved. In fact, the whole strategy for exports will have to be re-fashioned in consultation with the exporting industries.

Foreign exchange piles up

THE FOREIGN balances held by the Reserve Bank of India in the Issue and Banking Departments have been surging since March last year at a rate which has not been witnessed in the past one and a half decades and more. Until 1974-75 the Reserve Bank experienced serious difficulty in financing imports and even the devaluation of the rupee in June 1966 did not help bring about an equilibrium in foreign trade not to speak of the balance of payments position. The trade deficits too could not be bridged with the aid made available by members of the Aid-India Consortium and it became necessary to borrow heavily from the International Monetary Fund. In 1974-75, there was severe strain on the balance of payments position in spite of liberal assistance from members of the Consortium and there had to be heavy borrowing from the International Monetary Fund (IMF) apart from utilising the Oil Facility. The trade deficit of Rs 1189 crores had to be wiped out by using aid fully and also borrowing to the extent of Rs 484.70 crores. Even so, foreign balances with the Reserve Bank at the end of March 1975 were only Rs 632.89 crores as compared to Rs 529.87 crores at the end of March 1974. But for the borrowings from the International Monetary Fund foreign exchange reserves would have declined to perilously low levels.

The developments in the past fifteen months, however, have been taking place on entirely different lines. The trade deficit for 1975-76 also has been sizable at Rs 1154 crores. But it has not been necessary to borrow again

heavily from the International Monetary Fund and the Oil Facility of Rs 207.15 crores was utilised mainly for augmenting foreign balances. The position was so comfortable that it was even possible in April this year to effect a repayment of Rs 65 crores to the IMF against the drawing in February 1974. Thus foreign balances held by the Reserve Bank stood at the record level of Rs 1,711 crores on June 18, 1976 against only Rs 632.89 crores at the end of March 1975.

increased balances

There has thus been an increase in foreign balances by as much as Rs 1078 crores in fourteen and a half months ended June 18, 1976 against only Rs 103 crores in 12 months ended March 1975. Allowing for the use of Oil Facility of Rs 207.15 crores in August last year, the net rise in the latter period has been quite sizable at Rs 871 crores while there was a net decline in 1974-75 to the extent of Rs 382 crores if borrowing from the International Monetary Fund and against the Oil Facility of Rs 484.70 crores are taken into consideration.

How has the significant inflow of foreign balances in recent months taken place ? It is not known as to what is the policy adopted periodically for crediting foreign balances and to what extent there has been an exaggeration in the rupee value of foreign balances, due to a fall in the external value of Indian currency. In earlier years, when the rupee was linked with sterling and there were no major fluctuations in the external value of the latter, there was periodic revaluation of foreign balances. The exaggeration on account of a drop in the value of the rupee, even if credits were taken for fresh inflow of foreign exchange at the prevailing rates, could not have been more than 10 per cent of the fresh additions to foreign balances. The net increase in foreign exchange reserves in real terms has in any case been sizable.

The heavy inflow of foreign exchange resources has resulted in an improvement in the balance of payments position to such an extent that even with a big trade deficit in 1975-76, the additions have amounted to virtually the retention of one year's net aid from the Consortium in the pipeline. The details relating to the balance of payments position for 1975-76 will be available only after some months and it will be possible only then to find out precisely how new inflows on capital and current accounts were helpful in building up foreign balances.

There has, admittedly, been an increase in remittances from non-resident Indians in foreign countries to their dependents in India. It has also been stated that tourist traffic on account of foreigners has been on a scale larger than ever before even with a net decline in world tourist traffic. The attractiveness of the Orient and relative cheapness of tourism in this country have probably been helpful factors.

new accounts

There has also been an increase in foreign balances due to the opening of the new bank accounts in designated currencies. It has been claimed by several banks that a sizable fraction of the additions to the deposits in the period under reference has been due to the accounts of non-resident Indians. Since the deposits of scheduled commercial banks in 12 month ended June 18, 1976 have risen by over Rs 700 crores, as compared to the previous 12 months in 1974-75, it may not be unreasonable to presume that new bank accounts in designated currencies were responsible for an increase in foreign balances by Rs 300-400 crores. There might also have been inflow of foreign balances from other sources because of the continuing strength of the rupee.

These capital inflows however may not amount to more than Rs 500 crores. Even so, there has been a net accretion to foreign exchange reserves on a dependable basis of about Rs 375 crores. This suggests that anti-smuggling operations have been very effective and the prevention of the earlier 'techniques' of compensatory financing has resulted in larger direct remittances in foreign exchange by non-resident Indians to the dependents in this country. If it is also remembered that the trade deficit of Rs 1,154 crores in 1975-76 was due mainly to massive imports of foodgrains, fertilisers and non-ferrous metals, there has been a tangible improvement in the balance of payments position and foreign balances would have risen even more spectacularly if a good part of fresh aid had not been utilised for augmenting buffer stocks of foodgrains and inventories of fertilisers and non-ferrous metals.

significant developments

What is therefore the significance of the latest developments? A definite view in this regard can perhaps be taken only in the light of fresh developments in the coming months and the success attending the efforts to eliminate unwanted or avoidable imports. It will, however, be justifiable to conclude that the improvement in agricultural production and power availability and the prevention of drain on foreign exchange resources in various forms have considerably strengthened the external payments position and reduced dependence on foreign aid. This assumption will be justified if the upward trend in foreign balances is maintained in the coming months, as it is likely.

The availability of dependable foreign exchange resources over and above the committed aid of the Consortium for 1975-76 should also enable the government to administer the liberalised import policy meaningfully and permit larger imports of particular items for preventing an unnecessary rise in prices or eliminating shortages if for any reason there was a rise in prices or increase in demand for particular goods and services on account of larger Plan expenditure. The Reserve Bank is obviously confident that the foreign balances at its disposal will remain at high levels as in recent months sizable transfers of foreign securities have been effected to the Issue Department from the Banking Department. Foreign securities held in the former department have thus risen to 546.74 crores on June 18, 1976 from Rs 121.75 crores on February 27, 1976. Aggregate foreign balances have thus risen during this period to Rs 1,711 crores from Rs 1,157.42 crores. The accelerated net inflow is probably due also to a smaller trade gap in recent months.

Whatever may be the impact of favourable factors newly in operation, the Reserve Bank is probably feeling that operational balances in the Banking Department will be more than adequate if they were between Rs 1100 crores and Rs 1200 crores. Such a high level of foreign securities in the Issue Department has not been witnessed for over one and a half decades. If there has been real accession of strength to the balance of payments position as a result of a favourable turn in the terms of foreign trade and larger invisible receipts on current and capital accounts, the government can proceed confidently with the implementation of a bigger Plan and administer also its import policy imaginatively.

Tea prices and prospects

Mr H.R. Shah's presidential address at the annual general meeting of the Tea Association of India, held in Calcutta on June 24, revealed that some of the problems of the tea industry were yet to receive sympathetic consideration from the government of India. He said that the industry in Darjeeling was "the hardest hit" and that because of heavy taxation and labour costs, many estates had not been able to take up development and maintenance work for many years with "disastrous effects". He observed that while the unit prices in Calcutta auctions rose by Rs 3.33 per kg in 1975-76 over 1973-74, the production cost per kg in 1975 rose by Rs 3.77 per kg over 1973. He remarked that the managements felt "very helpless" about this situation over which they had no control.

Mr H.R. Shah suggested that the government should give further relief to the Darjeeling tea industry by lowering the excise duty rate to the level of 10 paise per kg which is charged on green tea. New Delhi should favourably examine this suggestion. In the meantime, the managements of these tea gardens should also do their best to improve efficiency at all levels. It is inconceivable that so many gardens could have become chronically sick if their owners had managed them prudently and taken timely measures to make them viable. Incidentally, one wonders why the president of the Tea Association did not offer any comment on the measures now being taken by the government of India to deal with the problem of closed and sick units.

Mr Shah complained that the banks were not giving adequate assistance to the tea industry. He said that the actual amount which a tea company now had to find on its own, over and above the bank loan, was so large that there was need for raising the cash credit limit to 90 per cent or even 100 per cent. There were also other problems such as unsecured loans, commission on sales and credit facilities to the newly purchased sterling tea estates. Mr Shah revealed that some banks were not following the recommendations of the Reserve Bank although Dr R.K. Hazari, the Deputy Governor's attitude to the tea industry was helpful. Similar complaints have been made by many other industries also. The Reserve Bank should look into this matter and see to it that banks implement its directives especially in the case of industries such as tea which are so important from the point of view of employment and earning foreign exchange.

government incentive

Mr Mehta referred to the government's target of Rs 260 crores to be earned from the export of tea for the current season and said that this could be achieved provided certain incentives were given such as rebate of full excise duty on the exported tea. He remarked that this would not only ensure the present level of tea exports in quantity but would also give "tremendous encouragement" to exporters to put in more tea for export and also push up sales in those countries where consumption is low. There is, of course, a sound case for giving full excise rebate on exported tea. But it seems unlikely that this by itself will give such a big boost to exports as claimed by Mr Shah. It is equally important for industry to show initiative and enthusiasm in promoting exports to the traditional and the new markets. Mr T.S. Broca, the chairman of the Tea Board, who inaugurated the association's annual meeting, advised the tea growers to market their produce directly. He said that they should look and act beyond auction and not be content only with production. He also suggested that greater attention should be given to the export of packet tea which fetched Rs 16 crores in 1975-76 against Rs 9 crores in the preceding year.

The industry should certainly try to implement these proposals. But Mr Broca's view that the industry should not worry about the impact of the revaluation of the rupee in relation to the pound does not seem to be convincing. Mr Shah pointed out that the rupee earnings on tea exports would shrink at least by 15 to 17 per cent and that since such fluctuations in the international market had become frequent, the government should give "some kind of export incentive linked to the revaluation or devaluation of the rupee in relation to pound sterling".

Mr Broca said that the increased price which tea was currently fetching at London auction--81 pence a kg compared to 43 pence in 1973—would offset the decline in the realisation in terms of rupees as a sequel to the fall in the value of the pound. The government however should carefully watch the situation and take timely steps so that the industry will continue to have the incentive to sell abroad in preference to the home market. It is worth noting in this context that the quantity of tea exported in 1975-76 was only 210 million kgs as compared to 233 million kgs in 1956-57. As Mr Shah rightly observed, "It is not sufficient to earn higher amount from tea exports through higher unit price because, at one stage, the total export earnings will start stagnating, once the unit prices become static. Higher exports in quantity year after year are equally important to augment our export earnings as well as to achieve our export target".

commendable efforts

Mr Shah said that the Food and Agriculture Organisation (FAO) of the United Nations was making "commendable efforts for making the international agreement on tea a reality". But the fact remains that FAO's estimates of production and consumption have proved to be quite inaccurate. Mr Shah said, "A comparative study of the past and present position of the world tea industry shows how forecasts in the past have been wide off the mark. A continued forecast of surplus teas over demand had helped in keeping the average price realisations in the world market depressed.

Surprisingly, a study of two to three years' world production figures shows no damaging accumulation of surplus to flood the market with a consequential crash in prices. In fact, all expected surpluses at the season ends were consumed. Only in the wake of the joint action by the OPEC, the commodities like coffee, tea, cocoa, etc. began commanding some respect from the advanced consuming countries, which has helped to better the average unit realisations overseas. Now the FAO (which so far forecast heavy surpluses) has taken the other extreme line of forecasting heavy shortfall in production over demand. The figures quoted by the FAO in the last meeting held at Rome in April this year forecast a shortfall in world tea supply over demand by 52 million kgs by 1985. Mr Shah said that growth in production is under-estimated and that the FAO secretariat should again send out its representatives to the tea producing countries and revise their estimates.

But how far will such revised estimates be realistic? Mr Shah observed that the discussion on buffer stocks in tea did not progress much at the FAO meeting as "tea was recognised to be a difficult commodity for such stocking because of its rapid deterioration in storage." But surely this fact must have been already well-known to those who initiated and participated in the discussions. A major obstacle to international cooperation on tea seems to be the lack of unanimity of views between the old and the new producers. The latter do not favour any arrangement which curbs their expansion in production or exports. Nevertheless, efforts should continue to be made through the FAO and other forums to arrive at some arrangement which will be in the interest of all tea producing countries. Meanwhile, New Delhi should take appropriate measures to improve the industry's competitive capacity.

Railways : room for improvement

The dramatic improvement in the working of railways since the declaration of the emergency in June last year, indeed, is heart-warming. Late arrival of trains, widespread ticketless travel, frequent pulling of alarm chains for unscheduled stoppages, increasing thefts and pilferage of railway property and consignments and sloth at the various rungs of this largest departmental undertaking had marked its operations earlier for not an inconsiderable period with the result that despite successive increases in passenger fares and freight rates for several years, the budgets had shown sizeable deficits. To some extent, the stepping up of passenger fares and freight rates, of course, was not unjustified in view of the mounting operational costs due to factors beyond the control of the railways. But the hopes entertained after each upward revision of fares and freight rates that the undertaking would be able to make up its losses were persistently belied.

The picture today is indeed reasuring. Besides the general improvement in passenger amenities, cleanliness of coaches, etc, the punctuality of train arrivals at destinations now averages over 96 per cent — in some zones even cent per cent — as against barely 60 per cent before the deelearation of the emergency. The incidence of alarm chain pulling, which averaged 28,800 cases per month in June last year, came down sharply to 18,353 cases in July last and thereafter has been of the order of only 7,000 to 8,000 cases each month. Ticketless travel, which was estimated to cost the undertaking nearly Rs 25 crores per annum, is claimed to have been eradicated to a very large extent. During the nine months to March last, special checking efforts were said to have netted nearly Rs 3 crores additional revenue, besides increasing substantially the window sales of tickets—during the whole of 1975-76, the window sales aggregated to 2865.5 million tickets, as against 2429.3 million in the previous year. The long queues for reservation of berths have disappeared following concerted efforts made to bring to an end the activities of unauthorised travel agencies. The congestion in trains has gone down vastly not only as a result of the drive against ticketless travel but also owing to the increase in capacity effected by introducing as many as 183 new trains—72 non-suburban trains and 111 suburban trains—extending the run of 62 trains and bringing 18 trains on broadgauge and one on metregauge under diesel traction. As many as 600 holiday specials have been planned recently from different cities to clear the summer-holiday-rush of passengers.

significant point

Of much greater significance from the revenue point of view, however, is the fact that the undertaking has been able to attract and move as much as 222 million tonnes originating traffic during 1975-76 — 12 million tonnes more than the target for the year and 14.06 million tonnes more than the previous record attained in 1969-70. This figure has substantially exceeded even the revised estimate of 214 million tonnes which was put forth by the minister for Railways, Mr Kamlapati Tripathi, in his this year's budget speech and also the figure of 217 million tonnes which he had hoped would be the final tally. This implies that the last year's deficit of the railways should ultimately turn out to be about Rs 15 crores less than the revised estimate of Rs 62.81 crores.

The above encouraging trend in goods traffic is stated to have continued in the first two months of the current financial year also. If the next kharif crop is even normal and industrial activity grows at the anticipated rate of 8 to 10 per cent, the traffic this year should grow at a much faster rate than last year when the growth in industrial output was not more than 5.5 per cent. This, indeed, should have a very salutary effect on railway finances and should enable the undertaking to throw up a larger surplus than Rs 8.98 crores estimated by the Railway minister.

targets over-reached

The administration hopes to fully cater for whatever traffic is offered this year. The budget estimates of 11 million tonnes increase in originating goods traffic, including the departmental traffic, over the last year's revised estimate of 214 million tonnes and four per cent growth in passenger traffic should, in fact, turn out to be significant underestimates in the light of the above. The railways, however, are not worried about it. They would like to attract as much traffic as possible for despite substantially increased loadings, the outstanding demand for wagons, which stood at 135,500 numbers on the broadgauge and 166,000 numbers on the metregauge systems in the beginning of 1975-76, has now come down to just 6,200 wagons and 6,000 wagons, respectively.

So far as passenger traffic is concerned, the overcrowding in compartments, as mentioned earlier, has been eradicated to a great extent and the passenger-carrying capacity is being augmented through various means. With a view to attracting as much high-rated goods traffic as possible, specialised services such as the quick transit service and the container services have been extended considerably. Super express goods trains are now running to fixed timings between the cosmopolitan cities of Delhi, Calcutta, Bombay and Madras and other important commercial centres. The high-rated traffic susceptible to diversion to road transport has been fully freed from the constraints of operating restrictions and quota limitations.

Equally significant has been the progress achieved by the various production and maintenance units of the undertaking. The marked improvement in both the passenger and goods carrying capacities last year, in fact, has resulted from the increased productivity in railway workshops which enabled them to overhaul monthly on an average 33, 14 and 10 per cent more of wagons, coaches and locomotives compared to the pre-emergency period. Concerted efforts at clearing the backlog of maintenance are envisaged to be continued this year. This is expected to provide a good cushion for the increased traffic offerings this year even if they exceed the budget estimates.

import substitution

The production units of the railways at Varanasi, Chittaranjan and Parambur have been able to raise their output significantly, besides furthering the drive for import substitution. The swadeshi drive launched in August last has resulted in an annual saving of foreign exchange to the order of Rs 5.17 crores. As many as 181 items were taken off the import list during the nine months to March last. The Diesel Locomotive Works (DLW) at Varanasi was able to indigenise 34 items valued at Rs 3.89 crores, the Chittaranjan Locomotive Works (CLW) 140 items valued at Rs 1.08 crores and the Integral Coach Factory (ICF) at Parambur one item valued in Rs 20 lakhs. A major breakthrough was achieved in the manufacture of such items as cylinder liners for Alco locomotives, cylinder heads and brake items. A mobile exhibition displaying about 500 items still on the import list has been organised to induce indigenous entrepreneurs to take up the

production of these items. This exhibition has already visited during the last 100 odd days all the important industrial centres in the north and east India and will be shortly moving on to the southern, western and central parts of the country. The DLW and the ICF are currently producing diesel locomotives and coaches to the order of 130 and 700 units per annum.

export drive

The undertaking has also embarked upon an extensive export drive. Its various production units have been able to secure during the last 12 months export orders for locomotives and coaches worth nearly Rs 10 crores which are to be executed by the end of the next calendar year. Exports of railway equipment during 1975-76 from these production units aggregated to just Rs 3.53 crores. A number of new orders have also been received by the wagon-building industry from various countries. Consultancy services have been offered by the railways to several African and west Asian nations. A significant breakthrough achieved in this respect has been an agreement with Ghana for the provision of services for improving the railway operations there. The contract will earn for the railways $ 66,000. Bids have been tendered for the provision of consultancy services to the Nigerian and Iraqi railways.

The impressive improvement in the operational efficiency of the undertaking since the declaration of emergency in June last year, however, can be expected to pose a new problem for it. The traffic carrying capacity available with it at present, which has got augmented substantially through the clearance of backlog of maintenance, may have to be raised to a much lower extent now than would have been the case in the pre-emergency period, to cater for the current Plan-end requirements. This may induce the Planning Commission to reduce allocations for the development of railways. It, indeed, will be a pity if the allocations for development are made inversely proportional to the increase in efficiency. The momentum gathered by the railways during the emergency obviously ought not to be lost in the long-term interests of the country. Transport bottlenecks have often caused many complications in the country's economy in the past. They ought to be avoided in the future. In the infrastructure field, it is always desirable to create some surplus capacity which can be marshalled to cater for unexpected growths in traffic, particularly in the years of bumper harvests. Some surplus capacity also will keep the railway administration on its toes for attracting traffic, which can never be the case if the traffic carrying capacity is even marginally short of requirements. A sellers' market breeds complacency. Let not the railways lose the momentum that has been gained now.

Another important aspect on which the railway administration has to bestow increasing thought is the crime on running trains. The theft and pilferage of railway property and consignments, no doubt, have been contained a good deal through the various measures taken recently to curb the activities of the anti-social elements working on the railways, as well as the drive launched against wagon-breakers and receivers of stolen railway property. But several cases of dacoities on running trains have been reported in the recent months. Though it is a law and order problem to a great extent to be handled by the state governments, the railway protection force can also be geared to this task to greater extent. The implementation of the recommendations of the one-man expert committee on railway security and protection, which covered the legal structure, powers, working procedures and leadership of the railway protection force as well as the government railway police of the state governments, should go some way in improving the situation. The processing of its recommendations needs to be expedited.

Eastern Economist 30 Years Ago

JULY 12, 1946

The recent giant conversion of the 3½ per cent Government paper has been generally welcomed as a wise act of financial statesmanship opening up a new era of cheap money. Its benefit to the Government in the shape of reduced interest on existing indebtedness and lower rates on future borrowings has been emphasized. Its advantage from the point of view of the economical financing of the large reconstruction expenditures of the Government has been particularly stressed. But there are others who doubt the wisdom of cheap, at any rate cheaper, money. This school of critics is not confined to India. Even in Britain and and U.S.A. where cheap money is recognized as the bedrock of economic policy, there are many who doubt the wisdom of further cheapening of money. In India this school of thought is not impressed by the movement of cheap money in U.K. and U.S.A. because not only are conditions in India regarding capital formation, savings and investment very different from those in other countries, but in the immediate post war transition period when inflation is yet to be held in check, cheap money can only lead to a bad boom. No less a person than Sir Purshotamdas Thakurdas recently said that the cheap money policy which is maintained by the weight of Government disbursements, combined with a number of factors unfavourable to private spending, and enforced with such determination by the Executive, connotes a rude disturbance to India's economic normality instead of being an effort to build it up.

Capital's Corridors

R. C. Ummat

Oil exploration • IFFCO's progress

THE OIL and Natural Gas Commission has drawn up an ambitious, time-bound programme for oil exploration on-shore. This, of course, does not imply that off-shore exploration is to be slackened. What is aimed at is that side by side off-shore exploration at a fast rate, on-shore exploration would be stepped up. On-shore exploration in the last three or four years has been at a comparatively low ebb.

The Finance ministry and the Planning Commission have already allocated Rs 350 crores for on-shore exploration during the terminal three years of the current Plan period—Rs 110 crores for the current financial year and Rs 90 crores each for the next two years. They have been approached to raise this allocation by Rs 70 crores—Rs 10 crores for this year and Rs 30 crores each for the next two years.

new concepts

Disclosing the above in a talk with pressman here last week, Mr K.D. Malaviya, the union minister for Petroleum and Chemicals, indicated that new geological concepts had made it possible to hunt for hydrocarbons in areas where this search was considered fruitless till lately. This, however, involved deep drilling. But even then on-shore exploration would not cost as much as off-shore exploration.

The on-shore areas proposed to be taken up for the drilling include the foredeeps of the Himalayas, including Ram Shahr and Jwalamukhi in Himachal Pradesh, some regions of the Gangetic basin extending from Bihar to Jammu, northern areas of the Brahmaputra river in Assam, west Rajasthan, Saurashtra and Godavari and Mahanadi basins. Exploration in Himachal Pradesh is proposed to be resumed by September-October this year.

Several deep drills have been secured for the purpose. Exploration, however, is not to be undertaken by the ONGC drillers alone. Foreign contractors are also envisaged to be engaged on fee payment basis without any share in the oil found or produced so that quick results can be obtained.

better drills

The new rigs which have been purchased recently can drill up to a depth of 4,500 to 6,000 metres. Such depths have not been tested before in this country. Drilling had to be abandoned earlier at much less depths due to such problems as high pressure and pipe-sticking.

Another important step that is being taken to expedite on-shore exploration is the use of helirigs in thickly forested areas where exploration through the conventional means of building approachable roads for moving equipment is a prohibitive proposition. The services of US contractors will have to be secured for this purpose.

Off-shore exploration in the Bay of Bengal and the Gulf of Cambay, where drilling was undertaken by foreign explorers last year, is understood to have failed to yield any worthwhile discovery. The future programme for these two areas is expected to be finalised shortly.

Meanwhile, the development of production potential to the targetted levels in the Bombay High area is being carried on vigorously. The flow of the two production wells already commissioned in this area has been doubled through acidisation.

As 95 per cent of the oil industry in the country has already come under government ownership following the take-over of the Esso and Burmah-Shell refineries and distribution networks in the last three years, a reorganisation of the oil industry is proposed to be undertaken shortly to make optimum use of the existing assets and to maintain a high standard of service to consumers. Some proposals have already been formulated in this connection. The views of the concerned interests are envisaged to be elicited before finalising them.

The Damle Committee on distribution of petroleum products, which submitted its report to the government last week, has called for economies in distribution costs and has suggested measures for checking malpractices in the distribution system. It has expressed the view that the oil companies must shoulder the responsibility of providing petroleum products to consumers in correct measure and the requisite quantities at the prescribed selling prices.

integration of companies

The committee has suggested complete integration of storage and distibution facilities of all the oil companies operating in the country. It has emphasised the need for machinery for correctly assessing the demand for petroleum products and clearly demarcating the functions of the oil companies the oil coordination committee and the ministry.

The establishment of multipurpose distribution centres, particularly in the rural areas, has been commended by the committee. It has recommended that more such centres should be opened.

* * *

The Indian Farmers Fertiliser Co-operative Limited (IFFCO)—Asia's largest fertiliser producing unit in the cooperative sector—indeed, has done well during the very first full year of its commercial operations. It has earned during the cooperative year ending June 30, 1976, a net profit of Rs 2.22 crores, which will go a long way in clearing the accumulated losses of the previous years aggregating to Rs 3.02 crores.

Whereas during the 1974-75 cooperative year, the undertaking produced in a little more than three months of commercial operations about 62,862 tonnes of ammonia, 56,408 tonnes of urea and 60,006 tonnes of NPK fertilisers, the production went up during the 12 months to June 30, 1976, to as much as 181,337 tonnes of ammonia, 240,205 tonnes of urea and 171,644 tonnes of NPK, as against the installed capacity of 300,300 tonnes of ammonia, 396,000 tonnes of urea and 475,200 tonnes of NPK. Production is envisaged to be stepped up significantly further during the 1976-77 cooperative year to 258,000 tonnes of ammonia, 325,000 tonnes of urea and 225,000 tonnes of NPK.

interesting fact

An interesting fact that has emerged from the operations of the undertaking up to June 30, 1976, is that whereas the total foreign expenditure on setting up its two plants at Kalol and Kandla had been of the order of Rs 27 crores, the saving in foreign exchange already effected has been of the order of as much as Rs 90 crores. A further saving of Rs 68 crores is expected to accrue during 1976-77. The contributions of the undertaking to the central and states exchequers by way of pool equalisation charges, excise duties, customs duties, sales tax, etc, since the start-up of commercial operations has exceeded Rs 25 crores, besides payments to the railways by way of freight aggregating to over Rs 6 crores. Another noteworthy feature has been that with a view to stepping up the aggregate national production of fertilisers to the extent possible, the undertaking supplied during 1974-75, 10,000 tonnes of anhydrous ammonia in special tank wagons to the Trombay unit of the Fertiliser Corporation of India.

Though better placed compared to the other manufacturing units in the country by virtue of its equity being held by co-operative societies which have to take up production in proportion to their shareholding, no efforts are being spared by IFFCO in promoting the use of fertilisers by farmers through holding farmers' meetings, field demonstrations, distribution of literature explaining the benefits of balanced fertilisation, etc. Another important measure taken in this regard is the adoption by the undertaking of 65 villages for integrated agricultural development. By the end of this year, the number of such villages is envisaged to go up to 200.

It is also planned to set up at Phulpur as part of a new manufacturing unit to be established there, a farmers' training institute with three objectives in view: (a) communication of the message of modern agriculture to farmers in a way that they adopt it, (b) development of professional leadership amongst young farmers so that they become message-carriers for others, and (c) establishment of a model farm to create awareness among cultivators regarding the potential benefits of scientific agricultural technology. The first course of training in this institute is intended to be started during the current cooperative year.

The Phulpur project, with a capacity of 500,000 tonnes of urea based on naphtha, is expected to cost Rs 168 crores out of which the foreign exchange expenditure would be around Rs 98.10 crores. A loan to cover the foreign exchange component has been provided by the World Bank. The balance of the resources are expected to be raised by the undertaking through increase in equity capital, ploughing back of its profits from the Kandla and Kalol projects and loans from Indian financing institutions. The equity capital is expected to be subscribed to the extent of about Rs 22 crores by cooperatives and Rs 31.2 crores by the government of India. The work on the project is proceeding well. Arrangements for design, engineering and construction have already been finalised with renowned contractors in India and abroad. Construction is expected to be completed by the end of 1978. Commercial production is anticipated to commence in 1979.

With the growth in its capacity and production, the society is extending the area of its membership which at present covers the states of Gujarat, Haryana, Madhya Pradesh, Maharashtra, Rajasthan, Punjab, Uttar Pradesh, Tamil Nadu, Karnataka, Andhra Pradesh and Delhi. The new states from which membership is to be enrolled this year include West Bengal, Bihar, Orissa and Himachal Pradesh.

As a result of the four reductions effected by the government in fertiliser prices since July last year, the provision of a subsidy of Rs 1,250 per tonne of P_2O_5 and the other measures taken to induce demand, the off-take of fertilisers by farmers is stated to have improved in the recent months.

POINT OF VIEW

Agricultural credit

Dr V. V. Desai

The author believes that the establishment of SFDAs and MFALs, the reconstitution of cooperative banks and the measures taken under the 20-point economic programme will help bridge the gap between supply and demand of agricultural credit.

PAUCITY OF adequate financial resources even for carrying out normal farming activities has hitherto been a major constraint in agriculture though it has been the predominant sector of the national economy. Generation and reinvestment of savings as an internal source of finance are inconceivable because of the subsistence nature of agriculture characterised by perpetual dissavings and deficits. Agriculturists have been compelled to have recourse to the external sources such as money lenders, traders or other institutional agencies for meeting various expenses. Thus, "agriculture is dependent upon outside finance for its development."[1]

temporary transfer

Procurement of funds from external sources cannot ordinarily[2] be claimed by a farmer as a matter of right but more so a matter of his credit. Mellor defines credit "as a device for facilitating the temporary transfer of purchasing power from one individual or organisation to another."[3] In the words of Herrick, "credit is that form of confidence reposed in a person which enables him to obtain from another the temporary use of thing or value."[4] This signifies credit as the temporary means of raising funds for defraying various obligations. Normally, a periodic cycle of borrowing, followed with repaying, which is to be maintained in the interests of both the borrowers and lenders, improves the creditworthiness of the former, as the frequency of the cycle increases over the period of time. Canalisation of borrowed funds in non-productive lines obviously impedes the cyclical flow of funds. This cycle is not maintained in agriculture because of continuous borrowings followed with irregular repayments, and hence, agriculturists always remain under heavy debts. Their entire credit turns into a backlog of debt.

different purposes

Farmers borrow funds mainly from non-institutional agencies[5] for different purposes and periods in order to meet their farm and non-farm expenses. Since there are various dimensions for credit, viz., purpose, period and nature, it is classified on the basis of these aspects, as depicted in Table I. Yet period-wise classification, viz., short, medium and long term credit, is most comfortable and prevalent in statistical returns and and feasible for analysis. Short-term credit is provided for meeting the seasonal requirements of working capital comprising mostly the items of revenue expenses. Funds are lent on medium and long term basis for livestock, repairs and maintenance of farm machinery, and purchase of machinery or redemption of outstanding debts.

Whatever may be the classification, aggregate credit requirements of farmers vary from season to season, region to region and from crop to crop. Under these varying conditions on the one hand, and inadequate statistical information regarding individual credit needs, on the other, it is an arduous task to estimate the aggregate credit requirements for agriculture. However, a few attempts have been made by economists to formulate the models applicable at microlevel for estimation of credit requirements. Since all of them cannot be discussed here, only two of them are explained in brief.

I. Singh and Gupta model

Singh and Gupta[8] have designed a micro-model for estimating short term credit requirements of a farmer by taking area under cultivation and capital inputs in a given farm into consideration. Accordingly:

$$(1)\quad Y_i = R_i \sum_{j=1}^{m} P_{ij}X_{ij}$$

Where

P_{ij} = Capital Inputs per acre in the ith farm

R_i = Proportion of Credit to Capital inputs on ith farm

X_{ij} = Area under jth crop on ith farm

Y_i = Credit Requirements

and they have taken the values of

$R_i = 0.50$ ...Small Farms

$R_i = 0.45$ ...Medium Farms

$R_i = 0.40$ ...Large Farms

Further, credit requirements for a block would, therefore, be

$$(2)\quad C = \frac{A_t}{A_s} \sum_{i=1}^{k} n_i Y_i$$

Where

A_t = Total Cultivated Area in a Block

A_s = Sample Holdings

n = Number of Holdings

In this simple model, the authors believe that the amount of credit, which bears certain proportion with total

capital inputs, expands in the multiple of area under cultivation. However, the model does not provide any explanation for the constants of R_i chosen by the authors. Yet, the attempt in identification of relationship is quite commendable.

II. regression model

The amount of fund required to be borrowed is functionally related to the cost of exogeneous inputs like fertilizers, canal water, etc., net operated area and other investments, hence, regression equations of the following type are sometimes suggested by economists:

$$(3)\quad Y = AX_1^{b}X_2^{b}X_3^{b}X_4^{b}$$

$$(4)\quad C = aX_1^{B}X_2^{B}X_3^{B}X$$

Where

Y = Total returns from crop

X_1 = Investment on Irrigation Equipments

X_2 = Investment on Draught Cattle

X_3 = Expenditure on Fertilizers

X_4 = Area Cultivated

C = Amount of Credit required

And, $b_1 \ldots b_n$, and

$B_1 \ldots B_n$ are respective regression coefficients.

While equation (3) measures the impact of independent variables taken into consideration on farm returns, equation (4) suggests the relationship between required borrowings and farm inputs and investments. This model, which is applicable in individual cases, has a limited use because it does not incorporate all the related variables which cause to raise the amount of future borrowings. Since regression coefficients vary from region to region, the model is not suitable for estimating total credit requirements for agriculture as a whole.

III. panel's approach

The All-India Rural Credit Review Committee, 1969 had appointed a panel of economists headed by Dantwala[9] for estimating agricultural credit requirements during the period of the fourth five year Plan. This panel adopted the following approach for revising the estimates prepared by the working group set up by the Agricultural Production Board, government of India:

(a) The amount of credit required bears certain relationship with the value of agricultural produce. This ratio of credit produce for 1961-62 was applied to the produce of 1966-67 and 1970-71 at 1965-66 prices; and

(b) The per acre average borrowing was multiplied to the estimated net

TABLE I

Classification of Agricultural Credit

	Items of Expenditure
Purpose (RBI Rural Credit Follow-up Survey)[6]	
1. Capital Expenditure	Purchase of land, land reclamation, construction and repairs of bunds, wells and irrigation sources, purchase, repairs and construction of farm houses, purchase of farm machines, their repairs, replacement, additions, etc.
2. Current Expenditure	Purchase of seeds, manures, fodder, hire charges of water, machines, etc. and wages, rent, land revenues, cess, and other expenses.
3. Capital Expenditure on Non-Farm Business	Purchase, construction, repairs, additions and maintenance of houses, production equipment, transport equipment, furniture, etc.
4. Family Expenditure	Purchase of clothes, utensils medical and educational expenses, litigation, birth, marriage and death ceremonies, etc.
5. Repayment of Debts	Repayment of debts and interest.
6. Other Expenditure	Purchase of bullion, ornaments, shares, certificates, bonds, etc., life insurance premium.
7. More than One Purpose	Expenditure incurred jointly on any two or more purposes referred to above.
Period	
Period (Cooperative Act)	
1. Short-Term	Recurring expenses for the period not exceeding 15 months.
2. Medium-Term	Expenses on farm assets of temporary nature, like deepening of wells, reconstruction of wells, etc., for the period not exceeding more than 60 months.
3. Long-term	Covering a period of 5 to 20 years, redemption of debts, purchase of heavy machinery, like tractors, construction of wells etc.
Nature (The Venektappiah Committee)[7]	
1. Consumption Credit	Personal, domestic and non-farm expenses.
2. Production Credit	Farm expenses of recurring nature and related to agricultural operations.
3. Investment Credit	Expenses incurred on permanent additions and improvement of farm assets.

acreage under cultivation in 1966-67 and 1970-71.

In order to make the allowance for rising prices the estimates were inflated by 25 per cent. This design may be expressed in language of mathematics as :

First Method

(5) $C_{66-67} = \frac{C_{61-62}}{P_{61-62}} \times P_{66-67}$

(6) $C_{70-71} = \frac{C_{61-62}}{P_{61-62}} \times P_{70-71}$

Where

C = Amount of Credit/Borrowings

P = Value of net Agricultural Produce

By inflating both the values by 25 Per cent,

(7) $CF_{66-67} = C_{66-67}\ (1+0.25)$

(8) $CF_{70-71} = C_{70-71}\ (1+0.25)$

CF = Final estimates of Credit Requirements.

Second Method

(9) $C_{66-67} = b \times A_{66-67}$

(10) $C_{70-71} = b \times A_{70-71}$

Here

b = Per Acre Borrowings

A = Net Acreage under Cultivation

By inflating these estimates

(11) $CF_{66-67} = C_{66-67}\ (1+0.25)$

(12) $CF_{70-71} = C_{70-71}\ (1+0.25)$

The estimates of credit requirements were further developed by taking household expenditure and current farm and non-farm expenditure into consideration,

Thus

(13) $CF_{70-71} = (CE+HE)_{70-71}$

(14) $CF_{70-71} = (CE+0.75\ HE)_{70-71}$

Where,

CE = Current Expenditure on farm and non-farm business.

HE = Household Expenditure

The estimates of short term credit requirements prepared by the working group as well as by the panel are presented in Table II. Although the estimates are not comparable on

TABLE II

Estimates of Short Term Credit Requirements for 1970-71

(Rs in crores)

Particulars	Estimates
Working Group	1106
Economists Panel	
Method First	
Eq. 13	1228
Eq. 14	1011
Method Second	
Eq. 13	1341
Eq. 14	1174

account of difference in methodologics of the working group and the economists' panel, the estimates of the latter are somewhat higher than that of the former. However, the review committee made further exercise in identifying the magnitude of cash and kind components of total credit needs for the year 1973-74. While segregating into cash and kind components, certain assumptions were made by the committee. In regard to cash component its suppositions were, that

(i) cultivators holding more than 20 acres need no credit for cash expenses, and

(ii) as a result of implementation of land reforms, subdivision and fragmentation, sale of land, etc, 33 per cent or one third of the holdings was not cultivated, and therefore only two-third of the area was taken into account[10].

In determining the kind components, it was assumed:

(i) that, of the acreage under high yielding varieties, a sizeable part will be accounted for, by 1973-74, by farmers who will have reached a stage of financing to a substantial extent;

(ii) that the cultivators of unirrigated areas will, by and large, not command 'own' resources of any significant volume and will, therefore, need to rely proportionately on borrowing for the costlier inputs; and

(iii) that the cultivators raising commercial crops on irrigated areas will need much support by way of credit for their purchase of inputs and may, in fact, depend even less on credit than the HVP category[11].

On the foundations of these considered views, the Committee estimated the total production credit needs for the year 1973-74 to the tune of Rs 2,000 crores as presented in Table III. Of the total credit requirements, 41.3 per cent was expected to be claimed in the form of kind, like fertilizers, pesticides, seeds, etc. According to the Committee, per acre credit needs for unirrigated area are lowest though the magnitude of cash requirements are highest. Only in the case of HVP farmers borrowings were expected to be less in the form of cash. It is interest-

TABLE III

Short Term Credit Requirement in 1973-74

(Rs in crores)

Category	Area (Mn acres)	Kind	Cash	Total	Per acre credit need in Rs
HVP	60	475	374	849	141
Non-HVP	69	196	214	410	60
Unirrigated	293	156	585	741	25
Total	422	827	1173	2000	—

ing to note that the share of the HVP category in the total credit needs comes to 42.5 per cent though it covers not more than 14.2 per cent of the total cultivated area. This signifies an exorbitant expansion in demand for credit, if HVP is extended further over a large area.

In so far as the estimation of medium-term credit needs is concerned, the Committee candidly accepted its nonsuccess in the wake of changing concepts and contents of medium-term loans and endorsed the estimates of the Working Group, which put it at Rs 500 crores for the fourth Plan. However, in the case of long-term credit requirements, the committee appointed a technical committee on long-term credit. The committee laid major stress on schemes of minor irrigation and provision for machinery and implements in conformity with the basic purpose of bringing about permanent improvement in land and farm assets. Thus, the aggregate amount of funds required for credit for the fourth Plan period was estimated to be of the order of Rs 4,000 crores as below:

		Crores of Rs
1.	Short Term	2,000
2.	Medium Term	500
3.	Long Term	1,500
	Total	4,000

In view of the increasing accent on HVP and mechanization in the country during the fifth Plan, the demand for agricultural credit may further expand as much as to Rs 5000 crores by the end of 1978-79.[12] As a matter of fact, actual agricultural borrowings are likely to soar further in the wake of rising cost of cultivation resulting from an upward movement of prices of agricultural inputs including wages. Another additive factor would be the structural changes in operational holdings as a consequence of land reform measures. Such an expansion of alarming proportions will be an uphill task for the agencies providing agricultural credit.

"Agriculturists in India were primarily depending for their credit needs on the non-institutionalised sector consisting of private money-lenders, landlords, traders, etc., who together accounted for as much as 93 per cent of the total borrowings of the cultivating households in the country in 1951-52."[13] Their intractable role in dispensation of agricultural credit for all and sundry purposes was in fact a challenge to the institutional agencies. The institutional agencies commanding ample resources rather failed to compete and drive them out from the field of agricultural credit. Their dominance on the rural scene was perceptible at least till 1961, as may be witnessed from Table IV. During a period of one decade i.e. from 1951 to 1960, the shrinkage in the proportionate share of total individual agencies was as little as 9.7 per cent. When the situation did not alter favourably, the government was constrained to resort to legislative measures. Ultimately, under the 20-point economic programme of the prime minister, the government of India declared a moratorium on rural debts from money-lenders and this has given the final and fatal blow to the system of private money-lending business in rural areas, and paved the way for institutional agencies. Now, there exit the following agencies from which farmers can directly borrow:

1. Primary agricultural cooperative societies,
2. State governments,
3. Primary land development banks.
4. Commercial banks, and
5. Regional banks.

Primary Agricultural Credit Societies: These primary units at a village level are functioning as flood-gates through which funds are directly supplied to the farmer-borrowers. Since they are the basic functionaries in credit dispensation, their financial strength and effectiveness in lending operations cannot be simply glossed over on any ground. Inadvertance and indifference of upper bodies in the structural

TABLE IV

Shares of Agencies in Agricultural Credit

(Figures in percentage)

Agency	Borrowings of rural households	
	RCS	DIS
	1951	1960
Government	3.1	2.3
Cooperatives	2.9	13.8
Commercial Banks	1.1	0.7
Relatives	14.4	8.8
Landlords	2.0	0.7
Agri. Moneylenders	24.8	33.9
Professional Moneylenders	43.8	12.7
Trader and Agents	6.1	10.1
O hers	1.8	17.0
Total	100.0	100.0

RCS = All-India Rural Credit Survey, 1951

DIS = All-India Rural Debt and Investment Survey, 1960 hierarchy of cooperative system in mid-sixties resulted in the liquidation of a large number of societies. This was clearly visualised by the Committee on Cooperative Credit,[14] and as a result, it recommended that "the functioning of strong and viable units at the primary level is an urgent need as much for the sound working and health of the entire co-operative credit structure." However, soon after amalgamation and reconstruction of these societies, they made an impressive record in disbursement of credit as may be witnessed from Table V.

seasonal loans

In the course of the last quinquennium i.e. from 1965-66 to 1970-71, the amount of total loans outstanding increased from Rs 427 crores to Rs 784 crores which was almost double. In subsequent periods, too, societies made the persistent efforts in channelling the funds for agricultural purposes. Expansion in short term credit is conspicuous as compared to medium-term loans, signifying, therefore, that their activities are mainly confined to advancing of loans for seasonal purposes, which are usually of recurring nature. Normally advances are granted by the societies mainly for purchase of seeds and fertilizers, which constitute, according to Table VI, about 90 per cent of the total short-term advances. The remaining share of 30 per cent goes to other purposes like purchase of implements, marketing of crops, processing of goods, etc. In the case of medium term-loans, major share of funds is directed towards unspecified agricultural purposes, moreover, such advances are granted even for non-agricultural purposes.

Another important feature of the primary agricultural credit societies is their special preference for medium and big farmers, as the sizeable chunk of their funds is purveyed for meeting their credit needs. This is discernible from a cursory perusal of Table VII which indicates that hardly 12 per cent of their total loans and advances were granted to the weaker sections of the agricultural sector including agricultural labourers. The reason generally ascribed to such inclination is their practice of security-oriented lending which is justified on the ground of strengthening their financial health. This is, however, contrary to the very spirit of the Venketappiah committee[15] which pertinently recommended, that "short-term production credit should not be made dependent on the borrower's ability to provide mortgage security and, therefore, there should be no arbitrary and unduly low ceilings on the amount which may be provided against personal sureties."

Despite these inherent drawbacks, their achievements from 1965-66 onwards is commendable even when there is a growing competition with commercial banks. The day is not far when they will be raised to the

TABLE V

Loans Outstanding

(Rs in crores)

Year	Short-term	Medium-term	Total
1960-61	...	...	218
1965-66	356	71	427
1970-71	647	137	784
1971-72	696	162	858
1972-73	721	258	979

TABLE VI

Purpose-wise Distribution of Loans

(Rs in crores)

Purpose	1971-72	1972-73
A. Short Term:		
1. Seeds and Fertilizers	485.80	554.77
2. Implements	6.60	5.94
3. Marketing of Crops	19.32	19.25
4. Processing	4.60	3.46
5. Industrial Purposes	0.20	0.38
6. Consumption	5.24	6.12
7. Other Purposes	19.09	22.83
Total	540.94	612.75
B. Medium-Term		
1. Sinking and Repairing Wells	9.10	11.44
2. Purchase of Machinery	11.06	13.50
3. Purchase of Cattle	12.47	10.78
4. Minor Land Improvements	4.29	5.11
5. Other Agricultural Purposes	21.87	71.74
6. Other Non-agri. Purposes	14.79	50.77
Total	73.58	163.34
Grand Total (A+B)	614.52	776.09

status of rural banks, provided they maintain the same zeal and momentum.

Primary Land Development Banks: As recounted earlier, long-term capital investment in agriculture is also needed for the improvment of farm capital assets like land, machineries, etc. Funds for capital investment are needed for a longer time and in larger size which make it imperative to have a separate institution within the structure of cooperative credit. Such institution at a village level is a primary land development bank which grants loans and advances for individual farmers for specific purposes like desilting and digging of wells, purchase of farm machines, conversion of dry lands into wet, etc.[16] These banks lend funds against the security of lands.

dormant state

Like primary agricultural credit societies, these banks which were formerly known as land mortgage banks, were in the state of dormancy till 1960-61 when their total advances were of the order of Rs 24.66 crores. In the subsequent quinquennium i.e. from 1960-61 to 1965-66 their lending operations shot up to the level of Rs 124.33 crores registering the net increment of about 400 per cent. There was commendable expansion in their loaning business particularly during 1965-66 to 1970-71. Over the period of one decade primary land development banks raised the supply of total credit by 20 times.

TABLE VIII

Long-Term Agricultural Credit

(Rs in crores)

Year	Loans Outstanding
1960-61	24.66
1965-66	124.33
1970-71	448.27
1971-72	516.30
1972-73	446.82

In order to intensify and expedite the financing activities of PLDBs, the committee, constituted by the Reserve Bank of India in March, 1973 under the chairmanship of K. Madhav Das, recommended in its report, submitted in December, 1974, that "the diversification of loaning operations and linking of the targets of lending of LDBs to specific schemes of agricultural development in each state are of considerable importance."[17] In this connection, it laid much emphasis on mobilization of rural savings and routing of loans through primary agricultural credit societies. The committee strongly deprecated the practice of accepting the mortgage of land for security of loans so granted, as it is contradictory to the basic features of the production-oriented lending system expected to be followed by them. Adherence to these recommendations by PLDBs will help create a new climate and enable them to meet the mounting demand for credit consequent on the steady transformation of agriculture.

Government: Long before the emergence of credit institutions the government entered into the field of rural credit in the form commonly known as Taccavi Loans under the provisions of the Land Improvement Act, 1883 and the Agriculturists Loans Act, 1884. The literal meaning of Taccavi (tagai) is strengthening, assisting or corroborating, but according to the official documents compiled in 1885, it implies the advance of money made by the government to cultivators at the time of sowing and recovered at the time of reaping. The Royal Commission on Agriculture had justified it in these words, "In normal times, the village moneylender seems to have met the normal needs, but in times of severe drought or widespread calamity, his resources proved unequal to the strain upon them, and long before the British acquired control, the rulers of the day were accustomed to grant loans to the cultivators of soil".[18]

However, Taccavi loans are sanctioned for the following purposes:[19]

1. Purchase of seeds, manures, fertilisers and cattle,
2. Bunding and levelling of lands,
3. Undertaking soil conservation works,
4. Digging and repairing of wells,
5. Installations of pumpsets, persian wheels, etc,
6. Construction of irrigation channels,
7. Reclamation of waste lands,
8. Purchase of agricultural implements and machinery,
9. Adoption of improved agricultural practices,
10. Adoption of plant protection measures,
11. Establishment of orchards,
12. Purchase of fodder for cattle,
13. Maintenance of cultivators while

TABLE VII

Class-wise Distribution of Loans

(Rs in crores)

Class	1971-72	1972-73
A. Owner Cultivators		
Upto — 1 Hectare	60.11	71.84
1 — 2 Hectares	100.42	144.35
2 — 4 Hectares	159.53	197.19
4 — 8 Hectares	141.46	183.06
8 — Above	107.57	127.59
B. Tenant Cultivators	15.83	16.30
C. Agricultural Labourers	4.78	8.97
D. Others	2.17	2.73
Total	614.52	776.09

engaged in sowing and tilling their lands, and

14. Undertaking repairs and reconstruction of houses damaged by floods, etc.

Since the funds for taccavi loans are allotted from the budgetary resources of the state governments, more often than not the amount is inadequte and exiguous. The amount of Taccavi loans disbursed by the state governments under different plans, as shown in Table IX, was no doubt increasing in consecutive Plans, yet its size in total agricultural credit was as little as a mole to a hill. The limited provision in budgets is a deliberate act of the state governments because it is to be purveyed in times of abnormal conditions, and moreover, financing of agricultural activities of cultivators is not the business of the government.

stringent conditions

The cultivators are also not much keen to acquire such loans from the government, specially because the terms and conditions attached with Taccavi loans are stringent and complicated. In addition to this, "the disbursement arrangements are insufficient and involve incidental delays"[20]. It is no longer regarded as an important source of agricultural credit in the country.

TABLE IX

Taccavi Loans During Plans

(Rs in crores)

Plans	Amount
First	18.5
Second	41.0
Third	55.0
Fourth	62.5

Although the Venketappaih Committee suggested certain measures for the improvement of Taccavi loans system in the country, it ultimately advocated for the discontinuance of the system in these words, : "This should, however, be considered as a purely temporary and limited arrangement and a date should be fixed in each state beyond which no Taccavi should be provided except to meet situations of widespread distress such as floods and famines.[21] In spite of its immateriality the governments are neither inclined to discontiune the system nor interested in channelling the funds as advocated by the Gadgil Committee, 1944.

Commercial Banks : Prior to their nationalization, reluctance of commercial banks in providing loans for agricultural purposes was proverbial. In the post-nationalisation period, which synchronised with the period of the fourth five-year Plan envisaging heavy additional capital investment in agriculture, and in turn, entailing credit requirements of an order admittedly beyond the capacity of cooperative sector, commercial banks emerged on the rural scene by opening branches to cater for credit requirements. The government of India and the Reserve Bank have taken a number of measures to help them to expand their activities in financing of agriculture and also to eradicate the impediments experienced by them. Some of the important measures are[22] :

(a) Lead bank scheme and branch expansion,

(b) Guarantee for small loans,

(c) Guidelines for financing agriculture.

(d) Refinance from the Reserve Bank, and

(e) Differential rates of interest.

On the recommendations of the Study Group of the National Credit Council and the Nariman Committee, the Reserve Bank of India introduced the 'Lead Bank Scheme' according to which every district in the country was allotted to one or another scheduled commercial bank and was known as the lead bank of that district. The basic function of the lead bank is to measure the agricultural resources and potentialities and estimate the credit requirements including those of weaker sections and backward areas in the district. It is imperative not only for the efficient dispensation of credit but also for mobilization of resources. "The bank is required to act as the consortium leader and after identifying growth centres and areas suffering from credit gaps, it has to involve other banks operating it the same area in the programme of banking and economic development."[23]

When commercial banks are saddled with new and growing responsibilities of expanding agricultural credit and developing banking habits among the rural masses, geographical dispersal and expansion of branches are inevitable. However, this programme received a great impetus since the nationalization, as may be witnessed from table X. The remarkable growth in the number of bank offices altered the spatial pattern of distribution on account of 50.1 per cent increase in the number of rural offices, as against 20.4 and 29.5 per cent rise in the numbers of semi-urban and urban offices respectively. It appears that the average coverage of population per bank office, which was about 65,000 in 1969, is reduced to 25,000.

Following the recommendations of the working group appointed by the government of India under the chairmanship of S.S. Shiralkar to formulate a scheme to protect the interests of the banks for the risk involved in the

TABLE X

Centre-Wise Distribution of Commercial Bank Offices

Year	Rural	Semi-Urban	Urban	Total
Number at the end of June				
1969	1832	3322	3108.	8162
1970	3062	3695	3374	10131
1971	4279	4016	3718	12013
1972	4814	4385	4423	13622
1973	5561	4723	5078	15362
1974	6175	5094	5667	16936

agricultural financing, Credit Guarantee Corporation of India Ltd, was established to pool their risks and cover them by a common and centralised guarantee scheme, which was formulated in April, 1971.

According to the scheme, the loans advanced to farmers and other priority sector ventures, was covered by the guarantee provided by the Corporation. Formerly the loans amounting Rs 1000 for seasonal agricultural operations, and Rs5000 for capital expenditure were covered by the guarantee of the Corporation. A guarantee fee of one half of one per cent is charged on the amounts outstanding on account of eligible credit facilities.

Later on, in December 1971, the corporation liberalised its secheme by extending cover to a larger number of eligible borrowers and loans. Even the purposes covered under the scheme for agricultural credit were further extended including cultivation of crop and agricultural development schemes.

refinancing facility

In order to induce commercial banks to advance loans for agricultural purposes, the Reserve Bank of India has rendered refinancing facility, according to which the additional advances sanctioned by commercial banks for seasonal agricultural operations is refinanced by the bank. The policy of refinance, the contents of which are subject to change in accordance with agro-conditions obtaining in the country, has a salutary effect on augmenting the credit dispensation by commercial banks.

The suggestion for adoption of differential rates of interest especially when the income inequalities among the agricultural borrowers are glaring, was mooted by the government of India in the larger interests of weaker sections. Accordingly, the Reserve Bank of India appointed a committee which examined the question of differential rates and suggested the linkage of the scheme with the credit guarantee scheme for covering small loans by the borrowers of agricultural and other ptiority and neglected sectors. The committee recommended the range of rates varying from $8\frac{1}{2}$ per cent to 10 per cent. The borrowers who are economically weak i.e. whose income does not exceed Rs 1200 if residing in rural area, or having agricultural land not exceeding one acre of irrigated or 2.5 acres of unirrigated, are made eligible for concessional rates of interest under the scheme. However, loans under the scheme are provided for working capital not more than Rs 500 and fixed capital upto Rs 2500. Such concession is an additive factor in popularizing the services of commercial banks in rural sectors.

state enactments

While entering the rural sector, commercial banks encountered the problems arising out of numerous state enactments relating to the rights of transferability through sale or mortgage, agricultural debt relief and regulation of money-lending, the imposition of land ceiling, land reforms, etc. To examine these problems and recommend measures for simplification of procedures and for improving the participation of commercial banks in agricultural development programmes, an expert group was appointed by the Reserve Bank of India under the chairmanship of Mr R.K. Talwar, in September, 1969. While submitting its report in December 1970, the commitee felt that in order to enable the commercial banks to "cater for the credit requirements of as large a number of agriculturists as possible, certain restrictive features of the various state enactments, particularly those relating to right of alienation in land or interest therein need be removed."[24]

The following is the summary of some of the important recommendations of the Talwar committee:

Cultivators who have no rights or have only restricted rights of alienation in their lands or interests—such as landholders belonging to scheduled castes/tribes, backward classes/castes, tenent-cultivators, fragment holders, allottees of Bhoodan land and of government land — should be vested with rights to alienate land/interests in land held by them in favour of banks for the perpose of obtaining loans for agricultural purposes.

general principle

The general principle of priority as between institutional credit agencies in regard to loans based on common security, should be as adumbrated in the Transfer of Property Act, 1882. This will ensure that the concept of first charge in favour co-operatives does not adversely affect commercial banks. However, all institutional agencies should have priority of charge vis-a-vis private credit agencies.

To overcome the prolonged delays involved in securing registration of mortgages created in favour of commercial banks, it is necessary to provide that it would be sufficient if a copy of the mortgage deed is sent for registration to the sub-registrar. The mortgage so created should also be noted in the record of rights.

To facilitate prompt recovery of dues of commercial banks without having resort to protracted and time consuming litigation in civil courts, the state governments should empower an official with authority to issue an order, having the force of a decree of a civil court, for payment of any sum due to a bank by sale of the property charged/mortgaged in favour of the bank.

Cultivators borrowing from commercial banks should be exempted from payment of stamp duty, registration fee and charge for issue of non-encumbrance certificate to the extent to which they are eligible for these concessions if they borrow from cooperatives.

In addition to these and several other recommendations, the committee took great pains in modelling a bill, namely The Agricultural Credit Operations and Miscellaneous Provisions (Banks) Bill, 1970 to incorporate some of the provisions recommended in the main report. Some of these recommendations were incorporated in the state enactments.

Removal of some legislative barriers, provision of substantial financial resources together with concessions have finally accelerated the pace of credit dispensation by commercial banks. The performance of commercial banks in farm financing can be judged with reference to the flow of bank credit in agricultural sector and the pattern of advances. It is evident from Table XI, that their total advances during the post-nationalisation period swelled from Rs 162.20 crores in 1969 to Rs 585.68 crores in 1974 registering three and a half times rise over 1969. Progress in performance is really laudable if viewed in the light of legislative impediments, administrative inexperience and growing competition with credit societies and private money lending business in rural and farm sector. However, relative share of agricultural advances to aggregate bank advances evinces a spurt in the year following nationalization and a slow but steady rise in subsequent years.

direct financing

Expansion in direct finance recorded a phenomenal rise in contrast to indirect finance. "After nationalisation, commercial banks made excellent progress in providing direct finance to cultivators.[25] Formerly, prior to nationalization banks gave loans, mostly in the form of indirect finance. In this context, Singh and George reported that about 33.50 per cent of the loans were given to state electricity boards and about 28.56 per cent had gone to finance processing and marketing indicating banks' preference for safe and secure investments.[26]

Grant of advances to farmers at such a scale is certainly an indication of their preference to commercial banks. While studying the effectiveness of commercial banks, C. Dinesh[27] concluded: "The farmers were going to commercial banks mainly due to quick and personalised services rendered by the bank. Besides, good banking facilities provided by the commercial bank was another attraction. Thirdly, each borrower was dealt with on the merit of the case which was not being done by the cooperatives." Thus, public sector banks have been playing a leading and effective role in credit dispensation to the agricultural sector.

small man ignored

Despite the remarkable extension in agricultural loans in yester years, the institutions whether cooperative societies or commercial banks, more often than not, have ignored the small and marginal farmers due to the security-oriented loaning policies of the former. It is admittedly recognised that "under the present lending system where the viability of the farm and repayment capacity are the main criteria of creditworthiness, there is the danger of the small farmer being bypassed by the *credit institutions*, unless special steps are taken.[28] In this context, the All-India Rural Credit Review Committee being quite conscious of their problems recommended the establishment of separate agencies for rehabilitation of small and marginal farmers including agricultural labourers.

marginal farmers

Following the recommendations of the committee, the government of India set up Small Farmers Development Agency (SFDA) and Marginal Farmers and Agricultural Labourers (MFAL) agency for identifying their problems and providing financial assistance for their economic betterment. Under the scheme 46 SFDA projects and 41 MFAL projects were sponsored covering 54 districts mostly belonging to backward regions. About 50,000 and 20,000 families are expected to come under the fold of SFDA and MFAL respectively. However, by the end of 1974 both the schemes had inclusively identified 30.25 lakhs and 14.04 lakhs of small and marginal farmers together with agricultural labourers. These identified farmers and workers have been brought under the cooperative fold and have been granted financial assistance through loans and advances, by cooperative societies and commercial banks. Substantial cooperative loans are obtained by these agencies as may be witnessed from

TABLE XI

Advances by Public Sector Banks

(Rs. in crores)

Year	Direct Finance	Indirect Finance	Total	Aggregate Advances	Per cent Col (4) to Col (5)
1	2	3	4	5	6
At the end of June					
1969	40.20	122.09	162.20	3016.76	5.5
1970	160 38	141.26	301.64	3577.60	8.2
1971	206.37	134.59	340.96	4079.76	8.1
1972	231.89	156.58	388.47	4622.00	8.4
1973	297.86	170.83	468.69	5430.00	8.6
1974	391.58	194.10	585.68	6563.00	8.9

Table XII because they are more akin to the cooperative field.

During the period of three years, i. e. from 1972-73 to 1974-75, loans from cooperative societies increased from Rs 54.05 crores to Rs 87.16 crores recording the increment of about 61.3 per cent. As against this, percentage rise in loans from commercial banks comes to 268.7 per cent, indicating their growing inclination towards bank loans. Undoubtedly, the prevailing institutional credit structure is quite responsive towards the problems of small farmers and agricultural workers but what is needed is that they should induce these weaker sections in adopting modern technology and improved practices. Thus, "SFDA and MFAL are basically micro-level development programmes with credit serving as a catalyst.'[29]

new orientation

In the regional seminar for Asia on Agricultural Credit for Small Farmers held in Bangkok, in October, 1974, it was expressed that it may be often desirable to give a new orientation to the existing institutions under the pressing social and economic needs, through appropriate policy changes."[30] But multi-agency approach, if it is well integrated with the total system of credit, will be potentially an important means of carrying out sound rural credit policy. In this light the government of India, promulgated an ordinance on September 26, 1975 to establish the regional rural banks in the country. In its preamble, it is stated that "with a view to developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans, and small entrepreneurs the regional banks are to be established.

According to section 3(2) of the ordinance, a regional rural bank will be a separate corporate body which will be sponsored by any other bank in the country. The sponsored bank is required to contribute share capital and should provide the facilities for recruitment and training to those regional banks. Although the authorised capital of the bank is stipulated to be Rs 1 crore the issued capital for each regional bank will be only Rs 25 lakhs, which will be subscribed in the following manner:

1. Central government 50 per cent
2. State government 15 per cent
3. Sponsored bank 35 per cent

The authority of increasing the issued share capital without altering the above proportion is vested in a board of directors, which is responsible for general superintendence, direction and management of the affairs and the business of a regional bank and is consisting of the chairman and other members representing the agencies as below:

1. Central government 3
2. State government 2
3. Sponsoring bank 3

The ordinance has clearly spelt out the business to be transacted by the regional bank vide section 18(2), namely

(a) the granting of loans and advances particularly to small farmers and marginal farmers as well as to agricultural labourers and other agricultural cooperative societies; and

(b) the granting of loans to artisans and entrepreneurs and persons engaged in trade of small in size, within the notified area.

This ordinance was replaced by an Act, of Parliament, Regional Rural Banks Act 1976 (No. 21 of 1976). Upto March 12, 1976, eleven RRBs have been set up in various states. Thus, the government has added a new dimension to rural credit which is a propitious move in the circumstances when the private agencies have been made defunct and there is no other means for farmers to secure credit.

In a nutshell, the system of rural credit has undergone radical changes since the nationalisation of commercial banks which subsequently started participating in agricultural lending, as a result of which individual money-lending agencies began to disappear from the rural scene. Establishment of SFDAs and MFALs, amalgamation of primary agricultural credit cooperative societies, reconstitution of primary land mortgage/development banks, lead bank scheme, etc, and the recent measures under 20-point economic

TABLE XII

Borrowings of SFDAs and MFALs

(Rs. in crores)

Type of Borrowings	1972-73	1973-74	1974-75
A From Cooperatives			
i. Short Term	29.62	16.83	21.57
ii. Medium Term	6.38	10.20	22.10
iii. Long Term	18.05	15.00	43.49
Total	54.05	42.03	87.16
B. From Commercial Banks			
i. Short Term	1.73	1.52	2.69
ii. Term Loans	3.06	8.75	15.00
Total	4.79	10.27	17.69
Grand Total	58.84	52.30	104.85

programme will, by all means, help bridge the abysmal gap existing between supply and demand of credit which is mounting every year on account of improved technology and mechanisation of agriculture. If all the agencies keep up the same zeal and zest, there is no reason why the credit needs amounting to Rs 5000 crores during the fifth Plan will not be catered for by these institutions.

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WINDOW ON THE WORLD

The other energy crisis

For the silent majority in the world the real energy crisis is not the high price of oil but the acute shortage of firewood. Erik P. Eckholm reports on the forgotten fuel crisis which now afflicts a third of the world's people and which could become the major ecological disaster of the century. Erik P. Eckholm is a researcher with the Worldwatch Institute in Washington D.C. and the material for this feature is drawn from his book "LOSING GROUND" (W.W. Norton and Co., 1976).

A LONG line of people, bent double under the heavy weight of firewood stacked on their backs, toiled down the road to Kathmandu. A rough harness of sacking stopped their backs being rubbed raw by the swaying bundles. "How much will they get for the wood?" I asked my taxi-driver. "Oh, firewood. A very expensive item," he exclaimed in a tone of a man explaining the obvious to the uninitiatied. "A load like that will sell for 20 rupee in town this morning. Two years ago, you could buy it for only six or seven rupees."

The line of people, men, women, children and even the very old, continued on towards the Nepalese capital.

firewood shortage

This scene set against the backcloth of Mount Everest, is a glimpse of a larger drama now being enacted on a stage spanning three continents by a cast of millions in the developing world. It is the other energy crisis—the firewood shortage.

One third of the world—more than a billion people in Africa, Asia and Latin America—still depend on firewood for cooking their food and heating their homes. And as their population has risen, the trees have fallen, and firewood has become desperately scarce.

For some villages here in the once heavily forested foothills of Nepal, the job of collecting firewood has changed from being the chore of an hour or two to the labour of a day. In Upper Volta, West Africa, all the trees within a 70 kilometre radius of the capital city have been consumed for fuel.

treeless landscape

In Bolivia and Peru, the slopes of the Andean valleys are nearly treeless. In the Philippines, over half the forests have been destroyed in the last fifty years alone. In northern Nigeria, the citizens of Kano are consuming 100,000 tons of firewood a year and three-quarters of it is coming from the area within 20 kilometres of the town itself. In India, firewood scarcity is so accute that special guard-squads and mobile courts have been set up to combat 'tree-poaching' in legally protected areas. And farmers who once allowed their landless labourers to collect wood free from their land are now cutting the trees for themselves and trucking it to the nearest town for sale. Even in China, young trees on commune plantations are sometimes uprooted to cook a meal.

For people who already live on the poverty line, this fuel crisis does not mean leaving the car in the garage on

Erik P. Eckholm

Sundays or turning down the central heating a few degrees.

Firewood is a basic need. And paying more to buy it or travelling further to get it means cutting down on other basic needs such as food or clothes and having less time and money left over to invest in a better future.

In Niamey, Niger, deep in drought-stricken Sahel, the average manual labourer's family is now spending one quarter of its income on wood. In Upper Volta, the fraction is often nearer a third.

Those who cannot afford to pay the price have to trek into the surrounding countryside—often a day's journey on foot—to find the wood. More often, they scour the villages and cities for garbage or anything else that will burn. When I visited the Chief Conservator in Pakistan's North West Frontier Province, he told me that he had got out of his car the previous evening to stop a woman from peeling the bark off a roadside tree. "I told her that it was like peeling the skin off a man" he said. "Of course she stopped—intimidated by what was probably the most personal encounter she will ever have with such a senior official. But no doubt she carried on when I drove off. For what else could she do?"

indiscriminate use

Half of all the trees cut down in the world every day are being used for the age-old purpose of cooking and heating. The other half are being destroyed mainly by the overgrazing of animals and the 'slash and burn' techniques of shifting cultivation. Forests are being felled to make way for peasant farmers and cash-crop plantations in West Africa; for new roads and airstrips in Brazil; for expanding urban areas in Nigeria; for charcoal-making in Kenya, Tanzania and Somalia; for timber exports in Indonesia.

Trees are a renewable resource when forests are carefully harvested and replanted—but instead they are being exploited as if there were no tomorrow.

The first casualty of this war on the world's trees is the soil. Trees preserve the soil's stability and fertility, retaining moisture and preventing erosion by wind and water. Do away with the trees and the cycle is thrown into reverse. The land becomes barren and brittle. The precious top-soil starts blowing in the wind and swirling away in the rains. Water begins to run off the hard denuded landscape rather than soaking in. The predictable drought sets in and a man-made desert is the result. This is what happened in the Dust Bowl Years in the Great Plains of the United States in the 1930s, and this is what is now happening, for example, around the huge Rajasthan desert in north west India, in the mountain valleys and almost treeless plains of central and southern America, and in the semi-arid regions of Sahelian Africa. In the Sahara, the retreat of the tree and the destruction of vegetation by over-grazing is allowing the desert to advance southwards bringing with it drought and famine.

soil erosion

In the last hundred years, water and wind erosion have destroyed an estimated 5,000 million acres of soil—the equivalent of one quarter of the earth's farmlands.

Soil is suffering in quality, as well as in quantity, because of the firewood crisis. In India, Pakistan, the Sahel, Egypt, Ethiopia, Iraq, Bolivia and Peru, the firewood shortage is forcing millions of poor families to use dried animal dung for fuel instead of using it to fertilise the land. It is a short-term necessity but a long-term disaster. For animal dung provides an essential plant nutrient. And the 300-400 million tons of dung now being burned as fuel in India alone is equal to one third of the country's fertiliser use. Prehaps even more important, the dung preserves the soils quality and structure. Without it, the land is even more prone to erosion and drought.

The whole length of the Himalayan foothills, from Afghanistan in the west to North Pakistan, India, and Nepal and Burma in the east, is now in the grip of this pincer movement—as the soil suffers both from dung-burning and from tree-felling.

silt formation

The next casualties are the irrigation and water-works. The soil washed off the unprotected hillsides is relocated as silt in Asia's rivers, affecting marine life and fisheries, clogging up expensive reservoirs and blocking vital irrigation systems. The silt inevitably reduces the carrying capacity of the rivers and increases their propensity to flood their banks.

At a time when every acre of cultivateable land is precious, the firewood crisis is leadidg to the impoverishment of vast areas of land and to increases in drought and floods.

Finally, there are the forgotton casualties of the forests. The natural habitat of many birds, animals and insects is being destroyed and the natural migration of the forest creatures is being interrupted.

Already, over 1000 species of wild life are threatened with extinction—and the forests are home to many of them. Much still remains to be learned about the complex and delicate ecosystems of the forests. We do not know what we are destroying or what the consequences may be. But we do know that the very air we breathe is dependent on the world's vegetation, including trees. A single hectare of woodland takes 3.7 metric tones of carbon dioxide out of the atmosphere and returns two metric tons of oxygen each year. Massive deforestation may affect the atmosphere and climate of the planet. At the moment, both these issues are being studied by experts at the World Meteorological Organisation in Geneva.

What can be done to halt the trend? Mass tree-planting is an obvious but not an easy answer. The sheer scale of such an operation, the difficulty of protecting newly planted trees from forraging animals, tree-poaching and those with an immediate and desperate need for firewood, all combine to make reforestation easier said than done. There is also a political reality to contend with. Governments, hard pressed by other priorities, are not eager to initiate programmes which will take decades to bear fruit in the form of either leaves or votes.

Side by side with re-planting schemes, alternative fuels are also urgently needed to take the pressure off poor people struggling to find firewood and, in so doing, to also take the strain off the forests. The main hope—kerosene—withered with the increase in oil prices.

alternate fuel

At the moment nothing could solve the problem more quickly than a cheap device for cooking the evening meal with solar energy collected during the day. But the technical problems of cheap heat storage are formidable. Little research and investment is being attracted to such a humble project.

Indian scientists have been experimenting for over ten years with a bio-gas device which breaks down manures and other organic wastes to release methane gas which can be used for cooking whilst leaving behind a rich compost for the farm land. Over 8,000 of these 'bio-gas' plants are now in use in India. But without a substantial reduction in cost and technical complexity, they will only slowly infiltrate the half million villages of that sub-continent. A tiny fraction of the research now devoted to armaments could almost certainly help make the vital breakthrough and enable solar stoves and bio-gas cookers, or combinations of the two, to be made cheaply and locally.

The United Nations Environment Programme is working on this problem. Trials with combinations of three alternative sources of energy — solar, wind and bio-gas—are now underway with UNEP help. In 1977, UNEP will also hold a World Conference on Desertification. Shifting cultivation, over-grazing, and the cutting of trees for fuel have been identified as driving forces behind the alarming advance of deserts and will be high on the conference agenda.

Planting and protecting new trees and finding alternative fuels is essential to take the strain off people, trees, soils and water systems. The march of deforestation has to be halted if a serious ecological disaster, affecting the lives and livelihoods of people, is to be averted.

Expanding economic horizons for India and Iran

Raj Narain Gupta

Mr Raj Narain is the author of "Iran—An Economic Study" which earned him an 'Order of Recognition' and a 'Gold Medal', from the Iranian government in 1950. In this article, he has listed the areas in which, in his view, collaboration between the two countries can be fruitfully executed in the next few years.

THERE ARE hardly peoples of two countries in the world today, said Jawaharlal Nehru in his well-known book 'Discovery of India', who, both in their origin and subsequent peaceful cultural intercourse, have been so close to each other as India and Iran. The relations between them precede even the beginnings of the Indo-Aryan civilization. And yet, if history has proved anything it is this that one can no more depend on past cultural, racial or religious bonds for continued and developing friendship between any two countries. Each country produces entirely new situations and each generation must forge its bonds afresh, specially in the fields of trade and commerce, technological exchanges and industrial collaborations. These are the new bonds that bind countries in closer friendship, for mutual benefit, than episodes of long common history and culture.

There is no doubt, therefore, that in the recent mutual exchange of visits between the high political dignitaries of the two countries, including their prime ministers, utmost stress has been laid on the development of closer economic contacts, expanding trade relations and negotiation of joint ventures. Viewed in this context the significance of the recent visit of Mr Fakhruddin Ali Ahmed, our president, to Iran becomes quite obvious. While fulsome references to India and Iran's ancient historical and cultural relations were made in welcome speeches and official banquets, the hard core negotiations between their accredited representatives are now invariably confined to more mundane matters of trade and commerce and economic and technological collaborations.

That India and Iran are the two rising and economically invincible nations in the Third World is a fact which is obvious to any discerning eye. The progress made by India, since independence, specially during the last decade, despite unprecedented challenges and strains posed by the 'partition' of the country, communal holocausts, recurrent droughts, wars with China and Pakistan and fight against vested interests has confounded even the worst critics of this country. From an exporter of raw materials and importer of all kinds of manufactured goods, even sewing needles and oil pins, the country now produces the most sophisticated electronic equipment, computers and calculators, aeroplanes and modern ships, engineering goods and basic chemicals, atomic, radar and defence equipment, railway locomotives and massive power stations, machines and precision tools and consumer goods of every description. And, all these results have been achieved within the democratic framework of an enlightened constitution, coupled with a social and economic revolution under which the under-privileged and backward sections of the community, are receiving much favoured treatment to bring them at par with the rest of the people.

Imports & Exports from India to Iran (in Rs. Crores)

Year	*Imports*	*Exports*
1961-62	74·6	7·0
1965-66	53·7	9·4
1970-71	91·6	26·7
1971-72	126·4	19·8
1972-73	121·4	24·8
1973-74	267·6	42·7
1974-75	472·6	210·0
1975-76 (first six months)	211·8	145·6

Under the inspiring, enlightened and dedicated leadership of His Imperial Majesty, Mohammed Reza Pahlavi, the Shahanshah of Iran, a similar socio-economic revolution is taking place in that country. This revolution also aims at doing away with feudalism and introducing an egalitarian social order. An obvious advantage which Iran enjoys over India consists in her phenomenal reserves of oil, the liquid gold, which now, after the four-fold increase in prices, yields her revenue of over 100,000 million dollars per annum. Iran desires a rational deployment of these resources for internal development, raising the standard of living of her people, gaining strategic strength and helping the economies of developing countries with a view to creating a peace zone in the Indian ocean, free from the rivalries of big powers, and wedded to economic unity.

serious problems

The translation of these goals into action, in the face of trained manpower bottleneck, managerial inexperience, technological inadequacy and the desire to achieve spectacular results within the shortest possible time, pose serious problems. The Shah, therefore, desires that India with her vast trained manpower and rich industrial infrastructure, may come to Iran's aid and help it in carrying out her ambitious development programmes. Iran is also taking the help of other developed countries such as the USA, the USSR, W. Germany, Japan and France in the implementation of her development plans, but, she feels that, any help from India is more welcome because of her non-aligned status and the availability of her skilled and professional manpower at much lesser cost.

Iranian and Indian needs appear therefore to be complementary. Iran possess superior financial resources, while India has trained engineers, qualified technocrats and advanced technology. It is for this reason that the two countries find it of mutual advantage to enter into treaties of trade and commerce, exchange of technical personnel, training facilities, industrial collaborations, joint ventures and economic understanding. Mutual economic interests are thus further cementing the traditional bonds of friendship and goodwill that have subsisted between the two nations since time immemorial.

Though archaeological excavations in eastern and western Iran (Sistan, Makra, Elam, Fars etc) and India (Valley of Indus, Sutlaj and Saraswati) have revealed the existence of considerable trade between the two countries in ancient times, the fact remains that it was largely confined to a few items consumed by the elite such as gold, pearls, textiles, spices, scents, objects of art and luxury goods. In recent years both the range and value of items exchanged between the two countries have greatly increased.

India now exports to Iran, not only traditional items such as cotton and jute manufacturers, tea, sugar and spices, but non-traditional items such as iron and steel, cement, non-ferrous metals, vehicles, transport equipment, engineering goods, cycles, tubes and tyres, electrical cables, lamps, motors, hardware, chemicals, toilets, paper, electrical goods, crockery, stationery, sewing machines, fishing boats, engineering goods, basmati rice and light machinery. In return India imports from Iran mineral oil (about 80 per cent of total trade), carpets, rugs, skins, furs, fruits, nuts, gums, resins, drigs and spices etc.

The value and volume of both exports and imports has been going up over the years. Till about the sixties, the value of India's exports to Iran amounted only to about Rs 60 million and imports to about Rs 400 million. During the last few years, these have increased many-fold. India's exports to Iran in 1974-75 amounted to Rs 2100 million and imports to Rs 5000 million. The two countries extend to each other the 'Most Favoured Nation' treatment. In fact, the prime minister of Iran, Mr Amir Abbas Hoveyda, who visited India in May last said, 'Sky is the limit for the development of trade between the two countries'.

At present India's share in Iran's total imports amounts to only about two per cent. It can go up many-fold provided we can assure quality of our products and stick to delivery schedules. The vast added oil revenues have created a massive demand for all kinds of capital goods, intermediate raw materials and consumer goods in Iran, particularly goods needed for the industrial infrastructure such as transmission equipment, material handling equipment, rubber products, synthetic materials, building hardware and the like. The list is formidable, provided Indian businessmen can compete in quality and business dealings with European competitors and Japan. The prospects for further development of trade are, therefore, highly propitious.

Already India and Iran are collaborating with each other in a number of joint projects such as the Madras Oil Refinery and fertiliser plant, the Irano-Hind Shipping Co., the working of the 7.5 million-tonne Kudermukh iron ore project in Karnataka and the 300,000 tonne annual capacity alumina plant in Gujarat. Some joint industries have also been set up by private Indian entrepreneurs in Iran such as those for the manufacture of trailers, cycles, hose pipes, electric motors and transformers, automotive parts and non-ferrous metals etc.

As a result of the recent visit of our president to Iran and of Iranian prime minister to India it is hoped that plans for collaboration in the setting-up of a large number of petro-chemical, fertiliser, iron and steel, machine-building and engineering goods industries, etc., the negotiations for which are already in advanced stages, will be finalised, and the economic collaboration between the two countries will achieve new dimensions.

One important field in which the two countries can benefit from each other's collaboration relates to the oil industry. India's requirements of mineral oil, which have remained almost static during the last two years because of the hefty increase in prices but are likely to go up by about 10 per cent annually due to economic compulsions, may amount to about 24 million tonnes in the current year. Of this India produces at present about 8.5 million tonnes (excluding the promising supply from Bombay High). For the rest of her supply, India has to depend largely on middle east oil. Iran, one of the most important producers of oil, and an invaluable friend of India can enter into a long-term agreement with India for an assured supply of this material at concessional rates and easy terms of payment.

The detailed negotiations on oil and other trade aspects may take some time to fructify, but it is hoped our president's visit to Iran would have opened up a new chapter in the direction of expanding new horizons on the economic front.

IRAN—Some Basic Facts

Area	:	1648 Thousand Square Kilometres
Population	:	31 million
Density (No. of persons per Sq. Km.)	:	19
Annual rate of increase in population (1958-65)	:	2·5 per cent
Growth Rate in G.N.P. in 1974-75	:	40 per cent at constant prices
Estimated per capita National Income in 1974-75	:	1000 dollars per annum
Estimated per capita National Income in 1977-78 (end of Fifth Plan)	:	1500 dollars per annum
Target for G.N.P. per capita at the end of Sixth Plan (1978-83)	:	2300 dollars per annnm
Ineome from Oil in 1974-75	:	15,000 million dollars
Expected income from Oil in 1978	:	102,000 million dollars

Seychelles is a republic

K.S. Ramanujam

On June 29, 1976 was born a new independent republic—Seychelles an archipelago of about 90 islands in the Indian Ocean—the total population of which is mere 60,000. K. S. Ramanujam, our representative in Madras, describes his experiences during a recent visit to the islands.

IT WAS my unexpected privilege to spend 30 hours in the lovely Mahe island where most of the 60,000 *Seychellois* live. This happened only last month, on June 12 and 13, when I was returning to India from Nairobi after a six-week tour of South Africa. Many facts about Seychelles are not widely known, especially in our country where, until now, there has been very little or no publicity for this lovely spot.

First, these islands are of incomparable beauty. Archbishop Makarios of Cyprus, who had to spend one year in exile on the main island of Mahe in Seychelles wrote, "I have visited many places all over the world and it is no exaggeration to say that the Seychelles islands contain the most beautiful places in the world". The famous writer and author Ian Fleming wrote: "It is a real paradise".. Many others have described in similar endearing terms these lovely islands, claimed to be the only mid-ocean islands in the world of a granitic origin.

Recorded history of human civilisation in these islands is hardly two centuries old. Seychelles were first a French colony and since 1815, a British colony, dependent on Mauritius. This ended in 1903 when it became a crown colony — independent of Mauritius. In that year the population of these islands was a mere 20,000. It is indeed quite surprising that even after 73 years their population today is only 60,000.

Until 1972, when an all-weather international airport was built at Mahe by means of reclaiming the bay adjoining it, the Seychelles were not within easy reach. The nearest mainland harbour for Seychelles is Mombasa, 1000 miles away. Even Mauritius is 1,200 miles and Bombay and Colombo are about 2000 miles from Seychelles.

It was rightly described as a tourist paradise by leaders in hotel industry as well as international airlines throughout the world. Already, within four years after the commissioning of the international airport, 30 jets fly into Mahe every week and the number is fast increasing. Jumbos will begin landing within a few days and our Air India has also decided to operate a weekly service from the June 25, 1976.

limitless scope

Mr James Mancham who became the prime minister of Seychelles in 1974 after his party "Seychelles Democratic Party" registered a massive victory of 13 out of 15 seats in the legislative assembly as a result of elections held under adult sufferage, lead his party to victory on the issue of Independence. His party's other main contention was that entrepreneurs from all over the world should be offered facilities to develop the hotel industry and fishing industry for which the scope seems limitless. When a government was to be formed, the opposition party lead by Mr Albert Rene agreed to co-operate and joined the ministry. When on June 28, 1976, the Seychelles became a full-fledged independent republic with equal status in the comity of nations, its future will entirely depend on the wisdom of its own leaders to take it along the paths of progress, prosperity and happiness.

Mr James Mancham has already established himself as the undisputed leader of this lovely little country. Realising from the outset that Seychelles would be ripe for both political and commercial exploitation, Mr Mancham has lead the islands into the twentieth century on his own terms. He has shown his great abilities in many parts of the wide-world as a tireless promoter of his islands abroad...always remembering, however, that Seychelles belongs to its people — and not to outside interests or to the aspirations of a few educated Seychellois seeking political and social power. He is well aware of the hard fact that the Seychellois are an easy-going people. For quite some time he has been giving slogans like "Paint up, fix up, clean up and green up to keep Seychelles beautiful" and as a result the important areas of Victoria Town which is the capital of Seychelles and Cascade have acquired a new look. He is determined to see that at least 1,20,000 foreign tourists land in Seychelles by 1980 as against only 55,000 at present.

clear-cut policy

"Keep out of our politics" — has been James Mancham's call to foreigners for quite some time as he wants to steer clear of outside influences and interference in Seychelles affairs. He does not propose to have any defence machinery as he feels it is not warranted. Seychelles has a tidy police force which maintain the law and order with great tact and understanding. There are already two radio stations in the islands, one belonging to the government and the other to the Christain movement for their broadcasts to the east. With French collaboration, a colour television station will soon be in operation on this island.

There are only about one hundred families of Indian origin. most of the Seychellois are of mixed origin — Africans, English, French, Spanish, Chinese etc and their colour is light brown. The official language is English but the spoken tongue is Creole, a blend of French and Spanish. Mr Camery Chetty—a Seychellois of Indian origin — is the island's Finance minister and this indicates the respectable and responsible place occupied by them in this small resurgent nation. There is only one daily published by the government in tabloid size and it is said to be the smallest daily newspaper in the entire world.

main crops

The main crops of this island are copra—dried coconut kernels (50 per cent) and Cinnamon (30 per cent), vanilla, patchouli, guano, salted fish sharing the remaining 20 per cent. Owners of estates and Indian merchants control 90 per cent trade and it is commonly said that the secret of the Indian shopkeepers' success is his ability to give indefinite credit together with unfailing courtesy. Nearly everyone in the island is in his debt. It is a tax haven with the highest income-tax at 35 per cent.

Almost everything has to be imported. The 1975 import bill was about Rs 18 crores. As against this, tourism brought in Rs 9 crores and exports brought in Rs 3 crores. Seychelles has always enjoyed the status of a grant-in-aid colony and its trade deficits are taken care of by the British government so that it may continue to be a free economy. Britain has agreed to keep this arrangement going for the next five years so that Seychelles may be able to build up its economy on its own in this period. British goods attract import duty of 17 per cent and all others 20 per cent.

The birth-rate is three per cent per annum. Family planning is being introduced so that population increase may be arrested. As many as 20,000 out of the total population of 60,000 constitute the working force, and a good many of them are women. There are 6000 motor vehicles on the main Mahe island which is only 54 square miles. Its average temperature throughout the year is only 80/85 F and the annual rainfall averages 90 inches. Its tallest peak is 3,200 feet high and even tea is grown on 40 acres. White as well as coloured workers get Rs 700 to Rs 900 per month; there is hardly any unemployment. Everyone here has a British passport at present although this will now change.

tourist facilities

Offshore banking with numbered account facilities will soon be in operation in Mahe. An Arab millionnaire is going to build a fabulous casino and hotel. Oberoi Sheraton have plans to build a very attractive hotel.

Beer flows like water on this island. People here start the day with beer and end it with beer. Seychellois are a jolly, simple, take-it-easy, care-free happy-go-lucky, cheerful people and freedom from foreign yoke may open up limitless opportunities for every one. Air Mahe is already an efficient air service taking tourists to its many attractive islands like the Bird island and others. The Seychelles is surely poised for a great future.

Attention Subscribers

All subscribers are requested to notify the non-receipt of a particular issue within a month of the date of publication failing which it may not be possible to provide replacement copy.

Manager

Airlines of the world—I

Lufthansa is fifty

S. P. Chopra

RECAPITULATING THE history of Lufthansa, Dr Herbert Culmann, chairman, executive board, Deutsche Lufthansa AG, said early this year: "The 50 years from 1926 to 1976 were one of breathtaking development in civil aviation in which Lufthansa was not only involved, but in which it played a significant role."

And the history of Lufthansa does read like a fairy tale. The first Lufthansa — Deutsche Luft Hansa AG, to be precise — began scheduled passenger, freight and air-mail traffic on April 6, 1926. Those were the days when radio technology and air traffic control were in their infancy. Night flying was considered a hazard. Not much knowledge or experience was available for bad weather flying. But the daring pilots of Lufthansa who were pioneers in this field, took courage in both hands and not only braved foul weather but conquered the unknown mountain ranges of the Alps, the Pyrenees and the Balkans.

By any standard, the very first year recorded remarkable success. With a staff of 1,527 in 1926, the Lufthansa planes flew 6.5 million kilometres, transported 56,268 passengers and 946 tonnes of mail and freight. With the planes of those days, the distance between Berlin and Moscow was covered in 15 hours. And it was no mean achievement!

The Lufthansa of 1976 is one of the leading airlines of the world, using fast, modern jet planes such as DC-10, Boeings 707, 727, 737, 747 and the Airbus A-300B. Boeing 737's are used for short-range, Boeing 727's for medium range, and Boeing 707's and 747's, as well as McDonnell-Douglas' DC-10's for long-range flights. The B-747 is a wide-body jet with a seating capacity of 365: its sister plane the BO747F has a cargo capacity of 100 tons and is used for clearing voluminous cargo.

Lufthansa's latest acquisitions, the long range DC-10 and the short to medium haul A300B "Airbus" fit logically into the carriers former all-Boeing fleet. By adding the new and quiet wide-body models to its inventory, the airline not only carries more passengers with fewer aircraft movements, but is also taking great strides towards eliminating excess noise and air pollution. In 1975, Lufthansa carried 10,147,900 passengers and transported 296,565 tonnes of cargo and mail. While it is rightly proud of its past achievements, Lufthansa is looking forward to a continued increase in its operations during the next decade. With a punctuality rate of 98 per cent, the airline is one of the few companies which have earned world-wide recognition for almost clock-like efficiency.

The jet age has made the world small. Lufthansa no longer considers Europe as a continent. It asks the people to think of Europe as a city. With Frankfurt airport as the geographic centre of Europe, each one of the major European capitals can be reached within approximately two hours. That is usually the time taken to travel from one part of a capital to another in most of the big cities, mainly due to traffic congestion. Frankfurt, the home port of Lufthansa, offers no less than 200 flights every day to all parts of Europe — and around the world.

In terms of financing and marketing accomplishments, the German national carrier can be proud of its achievements as well. The world economy was passing through a recession in 1975 and turnover of all businesses including airlines was adversely affected, Lufthansa was able to announce an increase of seven per cent in net profits as compared to 1974 with a gross turnover of 12 per cent. In addition the airline set a record by carrying more than 10 million passengers in the same year.

The profit motive has prevailed with Lufthansa all these years and it is not ashamed of it. Since the airline is not subsidized by the Federal German government, it has no option but to generate additional resources through efficient services and operation. It has to compete with airlines that are interested only in increasing their share in passenger traffic. These airlines are keen to transport as many passengers as possible into their own countries which results in the inflow of valuable foreign exchange through expanded tourism. The governments of these airlines who support them, consider them successful even if their balance sheets show losses, because what is lost by these airlines is more than made up by tourism. But Lufthansa, as stated earlier, is in a class apart. It continues to get increasing shares in the expanding passenger traffic of the world, and also shows surplus in the financing results — a hall-mark of good business, efficiency and discipline.

The flying crane — the symbol of Lufthansa — has earned both fame and prestige, thanks to the millions of hours of dedicated work by its staff, both in the air and on the ground. The administration building at Cologne which overlooks both the Rhine and the renowned cathedral, is Lufthansa's Head Office from where all progressive impulses, which have made Lufthansa one of the foremost airlines of the world, emanate.

Nearer home, not many have forgotten the congestion of freight at Palam airport in the months of May and June 1976. Lufthansa operated its Jumbo B-747F to carry as much as 78 tonnes of freight on June 1, consisting mainly of textiles and handicrafts. Earlier in May the airline had operated 14 special cargo flights carrying 313 tonnes. And in view of the government of India's policy of encouraging exports, Lufthansa has prepared itself to lift increasing volumes of cargo in the coming months.

On the basis of extensive market research, Lufthansa has taken certain lessons to heart. The busy businessman, for example, is keen to reach his destination with the least delay. Too many stoppages are not only irksome; they may also contribute to unforeseen delays beyond the control of an airline. Hence the introduction of non-stop services. For a passenger who boards Lufthansa at Palam, Frankfurt is only 8 1/2 hours away with no stop between the two cities. The Indian Railways take more time for a journey between Delhi and Amritsar.

Lufthansa is a living airline — one which keeps its eyes and ears open and gets the best market researchers to forecast trends in various fields. While many airlines take a gloomy view of things till 1980. Lufthansa is optimistic. Its executives, whose job it is to maintain a calm, sober view towards future developments, dismiss the peddlers of doom. In their view the future will be neither startling nor even surprising.

In fact, Lufthansa director for marketing and customer services, Dr. Malte Bischoff, has stated categorically, that there will be no developments which are not clearly recognizable already today. That is not to say that over the next five years or so Lufthansa's experts do not expect accelerated evolution in the industry and the inevitable short time crisis which affect every undertaking. However, it is the progressive and forward looking attitude based on solid research by the airline's team of experts who are constantly examining new trends in marketing, which has successfully guided Lufthansa's fortune in the past and will continue to do so towards an optimistic future.

Lufthansa at a Glance

Traffic Results	1972	1973	1974
Passengers carried	8,523,201	7,984,445	9,602,105
Freight (tons)	208,878	243,979	265,254
Mail (tons)	35,569	36,697	39,364
Passenger load factor (%)	56	56	54
Overall load factor (%)	59	61	59
Flights operated	131,961	121,481	145,518
Kilometres flown (Millions)	159.9	162.2	181.0
Available ton kilometres (millions)	2,899.0	3,203.7	3,718.6
Revenue ton kilometres (millions)			
Passengers	969.8	1,051.5	1,158.9
Excess Baggage	11.5	12.9	14.9
Freight	670.5	840.7	968.4
Mail	44.8	47.0	50.4
Total	1,696.6	1,952.1	2,192.6
Available seat kilometres (millions)	19,201.7	20,536.7	23,443.5
Passenger kilometres (millions)	10,667.4	11,555.0	12,758.9
Average distance flown by passenger (kilometres)	1,339	1,551	1,428
Average number of flight kilometres per week (thousands)	3,075	3,119	3,481
Unduplicated route network (kilometres)	403,257	405,811	406,309
Number of airports served	105	110	108
Operating aircraft as at December 31st (excluding training fleet)	79	81	86
Number of employees as at December 31st	22,888	23,761	24,441
Productivity per employee in ton kilometres (calculated on the available ton kilometres of scheduled and charter flights and on the annual average number of employees)	126,800	137,400	154,300

TRADE WINDS

Curbs on Dividends go

THE GOVERNMENT of India announced on July 3, 1976 the withdrawal of restrictions on declaration and payment of dividends imposed under the Companies (Temporary Restrictions on Dividend) Act, 1974, with effect from July 6. The restriction on the payment of dividends was imposed in 1974 as an anti-inflationary measure. Under the Act the companies were restricted to declare and make payment of dividends to the extent of 12 per cent. Under the amendment introduced in 1975, the companies could declare dividends of more than 12 per cent but the excess was to be paid in two equal instalments. The government's decision now removes all these restrictions.

Exports During 1975-76

The revised figure of India's exports (including re-exports) for 1975-76 has reached a provisional total of Rs 3943.0 crores registering an increase of about Rs 612.4 crores over the value of exports of Rs 3330.6 crores (revised figure) in 1974-75. In a climate of recessionary situation when the world trade is reported to have increased by only four per cent in value in 1975, an achievement of the growth rate of more than 18 per cent in Indian exports during 1975-76 is of great significance.

Increase in Export

Exports have tended to increase all over the year except for the month of July 1975. Not only our exports could fulfil the year's target of Rs 3600 crores but even exceeded it by a margin of Rs 343 crores or more than nine per cent. Within a span of five years during 1971-72 to 1975-76, the magnitude of India's exports increased by 145 per cent.

The impressive gains achieved in the export front have not, however, been adequate to balance our trade accounts. A continued strain on food, fuel and fertilisers to meet the growing needs of our economy pushed up imports during 1975-76 to the provisional figure of Rs 5018 crores. The last three months of 1975-76 have shown a continued decline in imports. With some recent improvement in exports in relation to imports, the deficit of India's foreign trade in 1975-76 was lower than that in 1974-75. Against more than 18 per cent growth in exports, the imports expanded by some 11 per cent, much less than the growth of imports in the previous two years.

Some commodities emerged as growth items in the export from last year. The export statistics for April, February, 1975-76, show that exports of sugar had gone up by 57 per cent and that of engineering goods by 13.3 per cent. Other growth items were: silver (132.1 per cent), fish (90.0 per cent), iron ore (38.0 per cent), leather and leather manufactures including footwear (27.9 per cent), iron and steel (310.3 per cent), handicrafts (20.5 per cent), cotton apparel (34.9 per cent), raw cotton (113.6 per cent), groundnuts (79.6 per cent), tobacco unmanufactured (17.9 per cent), coal and coke (174.1 per cent), tea (4.8 per cent) and coffee (13.3 per cent).

Tin Container Units

The Department of Industrial Development has lifted the ban for registration of new units in the small-scale sector in all areas of the country which intend to manufacture tin containers and similar other products using tin sheets. This decision has been taken in view of the increased supply position of tin plates in the country and its increased production from 96,000 million tonnes in 1974-75 to about 1,16,000 million tonnes in 1975-76. Earlier, this item was put in the banned list by the Development Commissioner, Small Scale Industries, because of shortage of indigenous tin sheets in the country. In March 1976, this item was opened for being set up in the backward districts/areas as the availability of indigenous tin sheets had improved. Those entrepreneurs, who wish to register new units or expansion of the existing units for manufacture of tin containers and similar other products, should approach the state director of Industries with their schemes.

Departmental Account with Banks

The union government has introduced a fresh innovation to streamline its financial administration. Some of the public sector banks have now been entrusted with the work of handling government receipts and payments. All payments on behalf of the ministries will be made by cheques and drafts on the branches of the public sector banks accredited to a particular ministry. So far, the actual cash transactions were being handled only by the offices of the Reserve Bank and the branches of the State Bank of India or its subsidiary banks. The involvement of public sector banks would not only provide adequate relief to the State Bank but also ensure prompt settlement of claims and quicker compilation of accounts.

To begin with, some ministries and departments have been accredited to public sector banks. The State Bank of Patiala will act as banker for the ministry of Petroleum, Chemicals and Fertilisers; Bank of India will handle the transactions of

Department of Steel; United Commercial Bank will be accredited to the Department of Mines; Syndicate Bank will be banker for the ministry of shipping and transport; United Bank of India will handle transactions of the Department of Coal; and the Central Bank of India will look after the transactions of the ministry of Commerce.

Indo-GDR Cooperation

India and German Democratic Republic (GDR) expressed their determination to intensify further and expand mutual co-operation in the political, economic, scientific, technological, cultural and other fields. They also welcomed the successful conclusion of the all-European conference on security and co-operation in Helsinki. The joint communique issued in New Delhi and Berlin simultaneously and signed by the prime minister, Mrs Indira Gandhi and General Secretary of the Central Committee of the Socialist Unity Party of Germany, Mr Erich Honecker, at the end of Mrs Gandhi's three-day state visit to (GDR), stated that establishment of lasting relations of good neighbourliness between all states was an important pre-requisite for transforming Asia into a continent of peace and co-operation. They agreed that the forthcoming meeting of the Indo-GDR joint commission should explore the possibilities of englarging areas in the fields of scientific research and exchange of technology between the institutions of the two countries.

Cash Aid for Turn-key Projects

The government has decided to continue till March-end next year, cash compensatory assistance for turn-key projects to be set up abroad. The assistance was valid for three months from April this year initially. Thus the cash support for turn-key projects has also been made available for a full year as has been done in the case of engineering exports. There will be however no change in the existing rate of assistance of 10 per cent.

There was a move earlier to increase the rate of assistance. But this has now been kept in abeyance for the time being since data required for computing the new rates of assistance could not be monitored. In fact it was for the same reason that the cash compensatory scheme was extended for just three months to begin with.

Engineering Exports

An estimated Rs 400 crores has been secured by India's engineering industry through its exports effort during 1975-76 as compared to Rs 349 crores earned by it in the previous year. Barring a few exceptions, most of the product groups of the industry have displayed dynamism in the export endeavour in this year. There was notable improvement in the foreign exchange earning of textile and jute mill machinery, heavy electricals, wires and cables, wagons and coaches, road motor vehicles, mild steel wire products sanitary castings, aluminium products, hand tools, diesel engines, mechanical pumps, household electric equipment and scientific instruments.

The capital goods sector proved responsible for sizeable improvement in the export earning. While in 1974-75 its export value totalled Rs 116 crores, the estimated level reached in the subsequent year was of the order of Rs 151 crores. In this area, industrial plant and machinery exhibited encouraging signs of improved overseas demand. Besides textile and jute mill machinery, which earned Rs 21.8 crores in 1975-76 as compared to Rs 16.3 crores in the preceding year, the export growth was evident in respect of sugar machinery, cement machinery, food processing michinery and earthmoving machinery. The entire group of industrial plant and machinery earned as much as Rs 43.53 crores as compared to Rs 31.23 crores in the preceding year. Heavy electrical exports, which have, over the years, established a mark in the world markets, netted Rs 14.5 crores in the year under review as against only Rs 1.20 crores in the year before.

Jute Pact with EEC

India and the European Economic Community (EEC) agreed on a new jute trade accord, the EEC officials reported recently. It provides that India will limit its exports of various kind of jute goods until the end of 1979. In exchange, the EEC agreed to lower gradually its tariffs on Indian jute exports to zero level by July 1, 1978. The previous jute accord expired at the end of last year. In April, a similar accord on cocoa was signed with India. The tariff-free Indian jute exports to Britain and Denmark are being maintained.

Indo-Pak Rail Link

India and Pakistan recently signed an agreement to resume train services between Amritsar and Lahore on a date between July 17 and July 24. While there will be passenger trains only up to Attari border on India's side, the express train will cater to through international traffic only. Both the countries will contribute to the rake composition on a 50:50 basis. The question of affording through passenger coach services beyond Lahore and beyond Amritsar stations will be considered at a later stage. It was agreed that each country will collect the fares for the journeys of passengers on the respective systems up to the international border.

Deposit Insurance

With a view to providing a greater measure of protection to bank depositors, the Deposit Insurance Corporation has raised the limit of insurance cover for deposits in registered insured banks from Rs 10,000 to Rs 20,000 with effect from July 1, 1976. The present limit of Rs 10,000 per depositor was fixed in April 1970 when it was raised

from the previous limit of Rs 5,000.

The enhanced insurance cover will apply in the case of any liquidation or winding up of an insured bank on or after July 1, 1976, and compromise or arrangement or reconstruction or amalgamation of any insured bank sanctioned on or after that date with no provision for payment of amounts due to depositors. Where, however, the Corporation has already incurred any liability before July 1, 1976 the existing limit (Rs 10,000) of insurance cover will contiuue to be applicable. The premium payable by insured banks will continue to be four paise per Rs 100 per annum.

Directors for Urban Improvement Co.

The Company Law Board has appointed six government directors on the board of directors of the Urban Improvement Company (Private) Limited, New Delhi, for a period of three years. They are Lt Gen. R. N. Batra (retired), Lt, Gen. J. S. Bawa, E-in-C, Mr R. K. Khanna (chartered accountant), Mr Lalit Bhasin, (advocate, Supreme Court), Mr S. P. Mitra, advocate, Supreme Court), and Mr O. P. Bhardwaj, (additional director, Urban Estates, Haryana).

Pata 1978 meet in Delhi

A separate cell is being created in the Department of Tourism to look after the arrangements for the Pacific Area Travel Association (PATA) Conference to be held here from January 23 to January 27, 1978. The dates for the conference have been chosen with a view to presenting to the delegates festival time gaiety, a spectacular parade, folk dances that go with the Republic Day each year.

RBI on Penal Interest Rates

The Reserve Bank of India (RBI) has told the scheduled commercial banks that the penal rates of interest on their advances should not exceed two per cent over the ceiling rates on advances (ranging between 16.5 per cent and 17.5 per cent) prescribed for the various classes of banks. It has asked banks to give separate treatment to certain categories of advances such as overdue inland bills, small loans up to Rs 5,000, loans granted under the differential interest rates scheme, direct agricultural advances and plantation advances and export credit.

Justifiable Part

In detailed guidelines issued on banks governing penal rates and service charges, the RBI has pointed out to banks that penal rate should not be regarded as a device for raising revenue but as a measure to ensure discipline in the conduct of the account. The RBI feels that penal rates cannot be objected to in principle and will have to be accepted as a "justifiable part" of the interest rates policy of banks, as long as they are applied with "selectivity and discrimination." It has been pointed out that the areas where banks may be justified in charging penal rates are default in repayment of loans, irregularities in cash credit accounts, non-submission of data, default in borrowing covenants, non-repayment or non-acceptance of demand bills on presentation, usance bills of exchange on due dates, and excess rent assets as recommended by the Tandon Committee.

Puerto Rico 'Summit

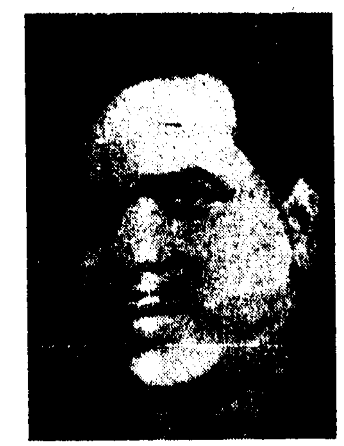
The seven leaders who met recently in San Juan, Puerto Rico, for an economic summit, announced that they had agreed to pursue the objective of sustained economic growth with policies that seek to avoid reigniting worldwide inflation. In a joint statement, issued at the end of the two-day summit, the leaders said that their objective "now is to manage effectively a transition which will reduce the high level of unemployment which persists in many countries and will not jeopardise our common aim of avoiding a new wave of inflation." During their meeting, the leaders agreed to consider creating a new multinational credit facility, possibly within the IMF to aid Italy and other developed nations that experienced temporary international payments problems.

Names in the News

Mr Rahul Bajaj, Chairman & Managing Director of Bajaj Auto Limited, has been unanimously elected as President of the Association of Indian Automobile Manufacturers for the years 1976-1977. Mr Bajaj is also the Chairman of the Development Council for Automobiles & Allied Industries.

Mr. Rahul Bajaj

Mr. K. N. Modi has been elected the President of the Northern India Cotton Textile Mills' Association. He is the Chairman of Modi Enterprises and takes deep interest in the social and welfare activities of the workers and residents of



Mr. K. N. Modi

Modinagar and surrounding areas. He had been Chairman of Pradeshiya Industrial and Investment Corporation of U.P. Ltd, and U.P. Electronics Corporation Ltd. He is a Director of U.P. State Industrial Development Corporation Ltd.

COMPANY AFFAIRS

Gwalior Rayons

THE TOTAL turnover of Gwalior Rayons for the year ended March 31, 1976 was Rs 146.95 crores as against Rs 150.98 crores in the previous year. After making provision for depreciation, development rebate reserve and taxation the profit and loss account showed a profit of Rs 6.41 crores as against Rs 7.71 crores in the previous year.

The directors of the company have declared a dividend of 20 per cent on equity shares which will absorb Rs 2.11 crores. The preference dividend declared by the directors will absorb Rs 32.38 lakhs.

Bonus Issue

Subject to the approval of the Controller of Capital Issues, the directors propose to issue one bonus share for each equity share held by the shareholders by capitalising Rs 5.28 crores out of the general reserve.

In the field of exports the Engineering and Development Division of the company successfully completed the supplies of staple fibre plant and machinery to South Korea. The plant was erected and commissioned under the able supervision of the company's engineers. The company's pioneering venture was complimented by the Director General of Technical Development, as an achievement which "will go a long way in strengthening our image internationally." The company maintained its progress regarding exports of staple fibre machinery to Thailand and the project is progressing as per schedule. This joint venture staple fibre project will go into production by August 1976. Also the company exported 8,200 tonnes of Sodium Sulphate during the year as against 5,600 tonnes in the previous year.

Grasilene

During the year under review, the R & D wing of the company developed a new high performance fibre, which is being marketed under the trade name of 'Grasilene'. The company has made necessary applications for patent rights in India, as also to cover other countries such as the USA, West Germany, the UK, France and Japan.

The company has received a letter of intent for expanding its pulp manufacturing capacity further by 12,000 tonnes of superior quality pulp suitable for rayon filament/tyre cord industry.

The company is participating in the establishment of 100 tonnes per day capacity Caustic Soda/Chlorine project in collaboration with Bihar State Industrial Development Corporation in a backward district of Bihar at an estimated cost of Rs 16 crores. Also it is actively engaged in exploring the possibility of participating in a chemical complex to be set up in Malaysia.

Malco

The Madras Aluminium Company Ltd had to face serious difficulties on account of critical power position and low realisation for its products in the year-ended December 31, 1975. The power cut amounted to 75 per cent during a part of the year. Production losses amounted to nearly 5,000 tonnes of metal; also the company had to spend nearly Rs 40 lakhs to restart its plant.

Under the new integrated aluminium policy, announced by government of India in July 1975 the company had to supply 50 per cent of its production as levy metal, and the rest to be sold as non-levy metal in the open market. Due to consumer resistance and high prices of the products there was a piling of stocks with the producers.

The company's performance during the first half of 1976 is far from satisfactory. In order to improve the demand for the product the government reduced the excise duty on aluminium by Rs 1200 per tonne. Also the government permitted the manufacturers to export the metal. Though the manufacturers were able to reduce their stocks by exports, yet in the process they incurred a loss of Rs 500 to Rs 1500 per tonne.

Mysore Cements

Subject to the approval of the Controller of Capital Issues, the directors of Mysore Cements propose to issue one bonus share for every two equity shares held by the shareholders for the year ended June 30, 1976.

The production of cement in 1975-76 was 431,584 tonnes as against 370,859 tonnes in the previous year.

The company received a cash prize of Rs 2,500 and a cup for the highest percentage reduction in frequency rate of accidents in the industry from National Safety Council, ministry of Labour, government of India. The Director of Mine Safety for southern region has adjudged the company's limestone mine in Karnataka as the best in overall performance and has awarded the company the first prize for safety standards and working conditions.

Dunlop India

Gross sales of Dunlop India Ltd, for the year ended December 31, 1975 amounted to Rs 167.44 crores, recording an increase of 14 per cent over 1974. This increase in sales was mainly due to higher selling price of the product.

The company was able to achieve a record turnover of Rs 7 crores—an increase of 32 per cent over 1974. The company received the special CAPEXIL award for outstanding export performance and promotional activities in 1974-75.

The company signed a technical consultancy agreement with Webstar, a company promoted by West Bengal Industrial Development Corporation, on behalf of Dunlop Ltd, UK. A similar agreement is being negotiated by the company with the Andhra Pradesh government also.

The company proposes to instal aerotyre retreading facilities at its Sahaganj factory in West Bengal. Hitherto all the aero tyres were being sent out of India for retreading. This facility will be saving the country a considerable amount of foreign exchange.

Haryana Financial Corporation

At the ninth annual general meeting of the shareholders of Haryana Financial Corporation held on June 21, 1976 the chairman Mr M. C. Gupta spotlighted the speed with which disbursements were being made in order to hasten the industrialisation of the state. The corporation disbursed six crores of rupees during the year ended March 31, 1976 taking total disbursement to more than Rs 29 crores. The increase in its operations inflated its income which crossed the Rs 2 crore-mark in the year under review. It goes to the credit of the corporation that it has successfully reviewed the cases awaiting financial sanction. Also, the time taken in sanctioning and disbursing financial assistance has been considerably reduced. While at the beginning of the year as many as 292 applications were awaiting disposal, their number came down to 83 only at the end of the year. In special cases, financial assistance was provided in two to three months.

Backward Areas

The corporation has continued to extend increasing volume of assistance to units in backward areas. As against financial sanction of Rs 2.59 crores in the preceding year, the corporation sanctioned Rs 2.72 crores to such units in the year under reference. What is more, there has been a steady increase in the number of such units year after year. The small-scale industries were also patronised by the corporation and attractive concessions were given to them.

However, the corporation encountered some difficulties in making recoveries of old loans. The chairman, Mr M. C. Gupta is making great efforts to hasten recoveries and undoubtedly his efforts will be crowned with success, in view of the improvement in the economic climate of the country in 'general and the state in particular

South India Viscose

Despite a fall in production and prices of its products, the working results of South India Viscose Ltd have turned out to be satisfactory according to the chairman, Mr R. Venkataswamy Naidu. The output of rayon yarn fell by 16 per cent, staple fibre by 63 per cent and wood pulp by 19 per cent in the year ended December 31, 1975 as compared to the preceding year. The chief cause for the drop in production was power cut for several months though the strike by workers was equally responsible. The prices of staple fibre and rayon declined sharply and sales could be effected only thrugh big discounts.

Undaunted by these unfavourable trends, the expansion projects of the company are being pursued with vigour. It has received an industrial licence for the manufacture of 20 tonnes per day of polynosic fibre. At the same time, the capacity of the pulp plant is being doubled from 60 to 120 tonnes per day. The expansion or the pulp plant is expected to be completed in the beginning of 1978.

Joint Ventures

The company is particpating in the establishment of an industrial unit in Malaysia. A joint venture in association with promoters in Malaysia, it will manufacture wood pulp for rayon and paper.

The company is fortunate in having made satisfactory arrangements for the allotment of forests in Nilgiris and Kodai hills. However, the government of Tamilnadu has demanded sharp increase in the existing lease rates. The management hopes that a sympathetic view will be taken keeping in view the peculiar circumstances in which the company is currently placed.

TDA

The Trade Development Authority (TDA) has decided to extend its activities to west Asia, Africa and other unexplored regions instead of confining itself to the markets of the developed west.

Mr S.G. Bose Mullick, union Commerce Secretary and Chairman of TDA, said recently in the capital that TDA did not want to be bound by any geographical constraints. It proposed to introduce flexibility in both the coverage of products and markets.

Mr Mullick said that TDA had evolved several novel instruments of export services. The technique of "buyer-seller meet" had paid rich dividends. The meets held at New York, and Dallas early this year helped the Indian exporters to book export orders worth Rs 11 crores on the spot. Besides, the meets generated inquiries worth nearly Rs 3.5 crores.

TDA's Achievements

Outlining the achievements, Mr Mullick said that TDA made a significant contribution in the field of automotive ancillaries during 1975-76. One of its client secured orders from a leading automobile manufacturer for the supply of specialised automotive fasteners as original equipment.

Unit Trust

Sale of units under the Unit Scheme, 1964 and 1971 which had been suspended by Unit Trust of India from June 7, 1976 for the purpose of the annual closing of its accounts, was resumed from July 1, 1976. Units will now be available for sale at the special price of Rs 10.30 per unit throughout the month of July. It is customary for the Unit Trust to sell units at a special concessional price at the beginning of its accounting year.

News and Notes

A Rs 20-crore spiral weld plant was commissioned as part of the **Rourkela Steel** Plant complex at Rourkela on June 17.

The plant will produce steel pipes ranging in diameter from 18 inches to 64 inches. The annual out-turn of 55,000 tonnes of large diametre pipes will go a long way to meet the requirements of the petroleum industry which is at the moment planning to lay a 1200 km pipeline from Gujarat to Mathura to carry the crude for refining at the Mathura refinery. The plant took two years to complete and has already gone into commercial production.

The general manager of the Rourkela steel plant, Dr P.L. Agrawal, said that the new plant had contributed significantly to make the oil industry self-reliant in regard to its pipeline needs. He said, Indian Oil Corporation had placed its first order for 86,000 tonnes of 24 inch diametre pipe for its projects and this alone will save the country foreign exchange amounting to Rs 30 crore. The total foreign exchange expenditure incurred on the spiral weld plant is Rs 7 crore.

New Issues

National Machinery Manufacturers Ltd is entering the capital market with an issue of 80,000 11 per cent cumulative redeemable preference shares of Rs 100 each for cash at par.

The company which was incorporated in 1947, with the main object of manufacturing textile machinery and spares in India went in for diversification in 1972 and started manufacturing synthetic fibre machinery and other sophisticated industrial engineering products.

The technical collaborators for synthetic fibre machinery are Barmag Barmer Maschinenfabrik, AG, West Germany.

The company will be spending approximately Rs 205 lakhs for modernisation of its Kalwe works, during the next five years. It also proposes to spend Rs 60 lakhs for its Baroda works.

Under the diversification programme the company will be manufacturing hydraulic variable gear boxes in collaboration with Gebr. Boehringer GmbH, West Germany and shuttle-less looms and spinning machines in collaboration with Societe Alsacienne De Constructions Mechnique De Mulhouse, France.

The issue opened on July 7 and will close on July 17, but not before the bank closing hours on July 9.

Dividend

(Per cent)

Name of the company	Year	Equity dividend declared for Current year	Previous year
Higher Dividend			
Super Box	March, 1976	18	12
Elgi Rubber	March, 1976	12	9
Gwalior Rayon	May, 1976	20	12
MICO	Dec., 1975	14	12
Same Dividend			
Premier Mills	March, 1976	12	12
Wandleside	Dec., 1975	5	5
Lower Dividend			
Food Specialities	Dec., 1975	Nil	17
S.R.P. Tools	May, 1976	Nil	3.75

The British India Corporation Ltd., Kanpur.

Chairman's Address

Statement of Shri P.N. Mathur, Chairman, The British India Corporation Ltd., for the year 1975 at the 56th Annual General Meeting held on Monday, the 28th June, 1976.

FELLOW SHAREHOLDERS AND FRIENDS,

I have great pleasure in extending to you all a warm welcome to the 56th Annual General Meeting of the Corporation.

2. The Directors' Report and the Accounts for the year ended 31st December 1975 have been circulated and, with your permission, I shall take them as read.

3. We have passed through a very momentous year in the history of our country in 1975. With the declaration of emergency, a climate of political stability has been created; labour-management relations have become more cordial; and the inflationary trends have been reversed. One of the off-shoots of emergency, which has directly benefited the corporation has been the virtual elimination of the entry of smuggled goods in the country. The disappearance of easily available cheap - priced smuggled ready-made woollen garments and woollen fabrics from the market has helped the sale of indigenously produced woollen goods in the country and your Corporation has been able to achieve a record turnover in 1975 which is about 18% higher than in the previous year.

4. The large turnover has, I regret to mention, not been able to generate sufficient profits even to cover the small depreciation charges. Although the reasons for this state of affairs have been enumerated in the Directors' Report, I would like to mention in passing that old plant and equipment and a high complement to staff were serious constraints on production and marketability of our products at a satisfactory price level.

5. Replacement of the old obsolete machinery for the worsted system under the modernization programme is being actively pursued with the financial institutions for which financial aid will be necessary. It is expected that this programme will be undertaken in two stages; the first stage to be completed by middle of 1978 and the second by middle of 1979. Two important machines for the first phase which were to be imported were indigenously fabricated in consultation with our technical staff and these are expected to be in position by September this year. I hope that after modernization, it will be possible to manufacture worsted materials in a wide range of counts and we will be able to cater for the fashion market right through the year on a bigger scale. After completion of the modernization programme, it should be possible to reduce the cost of production and to produce high quality products yielding a better margin of profit.

6. Funds for modernization of plant and machinery to be obtained from financial institutions have to be supplemented from internal resources. Under the present conditions in which our Kanpur Unit is placed, it may be increasingly difficult to generate funds from own resources. However, every effort is being made to improve profitability and to introduce economies so that the Corporation's contribution in this direction can be achieved.

7. It is unfortunate that unlike the cotton and jute industries, woollen textile industry is not eligible for Investment Allowance under the amended Income-tax Act. There is no reason for this unfair treatment to this important industry of the country which fulfils important needs of the Government, exports a sizable quantity of its products and caters for the masses, both urban and rural, living in the cooler regions of the country. The importance of this industry is in no way less than that of the cotton textile industry or the jute industry and there is no reason why the Investment Allowance should not be granted to the woollen textile mills of the country.

8. For the implementation of the 20-point programme to increase production through the handloom sector, your Corporation decided to collaborate with the U.P. Export Corporation Ltd. in the form of a Joint Sector Project for the manufacture and for dyeing of carpet yarn at Bhadohi. This project is economically viable and it will serve the needs of a deserving section of our community, namely the handloom weavers, who will be able to obtain carpet yarn on more reasonable terms at their door-step so that a much larger quantity of handloom carpets can be woven and made available for exports. It is hoped that the contribution of the Corporation to this project will be a matter of satisfaction for all concerned.

9. Due to the present financial problems, the Corporation has not been able to render more service to the rural areas but the importance of improving the earning capacity of the masses in rural areas and thereby enlarging the scope of expansion of industries, particularly consumer goods industries, is not being overlooked. With a view to help the rural areas, a Company of the B.I.C. Group, The Saran Engineering Company Ltd., has undertaken a pilot project for fabrication of equipment for making cement out of rice husk ash with the help of a scientist from the Indian Institute of Technology, Kanpur. The pilot plant is under trial in the factory premises of the said Company and the finished product from this plant, though not as good as portland cement, will have an equally good application in brick laying, masonry and plastering.

10. With the exception of the Saran Engineering Co., other group companies

namely the Textile Units and the Sugar Units have not fared at all well. However, some improvement has been noticed in the year 1976 as the Sugar Companies are expected to show profits and the Textile Mills may show slightly better performance.

11. As you are aware, the 20-point programme has been enlarged to include five more points for adoption as national policy, viz family planning, afforestation, urban development, national fitness and child welfare. These five points should now be treated as social responsibilities of business. Family planning is most crucial for the progress of our country as the ever-increasing population nullifies all efforts at raising the standard of living. Some measures have already been taken to motivate the staff for family planning. These measures need to be intensified and steps are being taken in that direction.

12. I would like to thank my colleagues on the Board for their valuable guidance. Shri M.C. Sarin resigned from the Board during the year. I wish to place on record our deep appreciation of his valuable services. Shri Bahadur Murao, Member, Bureau of Industrial Costs & Prices, has joined the Board vice Shri Sarin and is a very welcome addition. So is Shri A.S. Gupta, Zonal Manager, Life Insurance Corporation of India, Calcutta, who was appointed as an Additional Director and is due to be elected at this meeting.

13. This is a year of rededication for us being the Centenary Year of Cawnpore Woollen Mills. Hard work and discipline, which our Prime Minister has been emphasising, should be our motto to improve production and profitability.

14. I would end by thanking all our workers, staff and officers for the good work done by them during the year.

Note: This does not purport to be a record of the proceedings of the annual general meeting.

RELEVANT TECHNOLOGY

Following is the speech delivered by Mr. T. Thomas, Chairman, at the Annual General Meeting of Hindustan Lever Limited, held at Bombay on Thursday, 24th June, 1976.

INTRODUCTION

India is reaching a stage of criticality in its technological momentum. Therefore, I thought it would be appropriate to examine what kind of technology would be relevant to our country and what contribution your Company is making to such relevant technology. A historic perspective has been provided in order to make the analysis more meaningful.

SCIENCE & TECHNOLOGY

Although science and technology are closely interlinked, there is a clear distinction between them. While science provides the 'Know-why', technology provides the 'Know-how'.

Science can exist and has done so in the past for long periods (e.g. atomic science) without being converted into technology. Similarly, once upon a time technology was derived directly from arts and crafts (e.g. distillation or metallurgy) without any understanding of the science behind it. But over the centuries, a strong linkage has been established between science and technology. And modern technology is the result of deliberate application of science.

Today an organisation can progress in technology only if it has a base in science (i.e. R & D). Conversely, the only way science can tangibly influence or benefit society is through its conversion into technology which is relevant to the needs of society.

TECHNOLOGY & ECONOMIC DEVELOPMENT

Throughout history, economic development has depended on technological progress which passed almost like a wave over the countries from East to West—from China, India and Egypt to Greece and Rome, later to the Islamic Empire and to Renaissance Italy and culminating in the Industrial Revolution in Europe spearheaded by Britain. In all this the trail of economic progress was identical to that of science and technology.

Perhaps man's first technological step was to take up organised cultivation of desirable crops which we now call 'agriculture'. This momentous step was taken because of the crisis reached in the early man's parasitical hunting economy as animals vanished or were exhausted from within reasonable reach. Similarly, throughout history, a large number of technological innovations were created in response to that recurring crisis of organised violence which we call 'war'. Yet another type of crisis which contributed to technological progress was the force of deprivation. A telling example was the discovery and use of coal in Britain in the eighteenth century because of the increasing shortage and cost of wood as a fuel. This led to mining and usage of coal which in turn resulted in a revolution in the engineering and metallurgical industries.

Thus, in the past, economic progress through technology was as a result of some kind of crisis. But in the present century planned use of science and technology for economic development has taken place in both the capitalistic as well as the socialistic societies. Science and technology have now become the recognised instruments for economic development.

CONTROL & USE OF TECHNOLOGY

The effectiveness of technology depends very much on who controls and uses it. In early human civilisations from China to Peru, the intellectual priests and the rulers believed that proper contact with celestial powers was more important than terrestrial problems. Hence the emphasis was on the study of stars or on the building of pyramids and temples to propitiate the gods. Although these beliefs and activities stimulated science and technology (e.g. astronomy, architecture), they did not contribute much to the well-being of people. In a later civilisation, the Greeks made tremendous progress in logic, mathematics, philosophy and architecture. But most of it found little application in simple activities like agriculture which were relevant to the welfare of the people.

Over the centuries the sponsorship and control of science and technology passed from the hands of private geniuses and princely patrons—first into the hands of people motivated by commercial interests (i.e. business and industry) and later (especially in this century) into the hands of governments. This evolution in the control of science and technology into the hands of agencies with increasing social responsibility should normally be considered an advantage.

Unfortunately, one of the major interests of governments (and hence of many large manufacturers) in technology and science in the most developed countries, has been its use for Defence. It has been reported that only about half of total R & D in advanced countries is directed towards purely non-Defence purposes. A major portion of today's scientific resources is devoted to the pursuit of organised violence between States which seem to emerge into a stage of adolescence and have to prove their virility in this suicidal fashion before they almost inevitably decline in the way of the Greeks and the Romans. In fact, if in a later century, a retrospective view were to be taken about the distribution of scientific and technological endeavour during our times, there could be a strong indictment of the present civilisation.

However, in spite of this diversion of significant effort to Defence purposes, the relevance of science and technology to the well-being of larger sections of society has come to be recognised increasingly because all governments are ultimately accountable for economic progress and not merely for Defence. It is this factor of "accountability" that often compels organisations as well as individuals to become more relevant.

TECHNOLOGY IN INDIA GOES 'CRITICAL'

Against such a historic perspective, I believe that our country is fast approaching, if it has not already reached, a point of criticality in the advancement of science and technology in the same manner as chemicals reach a critical point in their reactive transformation. My belief is based on the following factors:

Throughout history India has preserved an intellectual class that was interested in sciences such as astronomy, astrology, mathematics, architecture, yoga, ayurveda and metaphysics. We have thus sustained an intellectual base.

We have a political system which owes its existence and will owe its survival to the well-being of the largest proportion of people in the country. It cannot be preserved either by enriching a few or by territorial acquisitions. It is therefore bound to seek economic development which has inevitably to be based on technology that is relevant for this purpose.

In independent India of the 20th century, we have been fortunate in having in both Pandit Nehru and Smt. Indira Gandhi, Prime Ministers who at the highest political level, have recognised the role of science and technology in economic development.

Science and technology being agents of change are radical in nature, India is in a ferment of change—change even in age-old social customs like dowry or the size of families. This radicalism provides an effective climate for advancement of technology.

If historically crises have often contributed to advancement of technology as was described earlier, we have one of the most potent crises on hand—the crisis of deprivation of at least 250 million people, not merely of firewood as it was in Britain of the 18th century, but of more basic necessities like food, clothing and shelter. It will compel us to find solutions in technology and that too in the none too distant future.

Fortunately for us, scientific knowledge and technology are cumulative and not exhaustible. During the last half century there has been a greater accumulation of technology than has taken place in the whole of the previous period of human civilisation. This has created a powerful potential force for flow of proven technology into our country.

In the same period, our country has built up the world's third largest force of scientists and technologists. As against 67,000 science graduates and 53,000 engineers in 1950, today India has over half a million science graduates and nearly half a million engineers. Even if one were to apply a factor for discounting the quality of some of these numbers, it is still a very impressive growth and a formidable number. It is also estimated that by 1985 our number of scientists and engineers will exceed 2 million which would be more than what several developed countries will have by 1985.

Instead of being confined only to elite universities, the study of science and technology has spread throughout the country. Coupled with improved means of communication, this has made science and technology more familiar to people at large and their usefulness is being increasingly realised even in the farming communities. Thus we have attained a level of receptivity for technology which did not exist even in many developed countries at a corresponding stage of their economic development.

India has now an industrial base to employ and to exploit the findings of scientists and technologists. The private sector has passed from the age of the trader investor, who through hereditary management tried to obtain the fastest return, to a new class of professionals who are willing to invest in the future through R & D. The public sector is being increasingly weaned from the civil service umbilical cords and managed by people who have greater involvement and knowledge of the technology. All these changes must contribute to a greater and more rapid mastery and exploitation of technology for advancement.

The versatility of technology available in the country has expanded considerably in the last 25 years. In that period, we have acquired and successfully absorbed modern technology for steel, fertilizer, non-ferrous metals, machine building and heavy engineering. We have broken into petro-chemicals and atomic power.

For all these reasons I believe that India is on the threshold of great advancement.

RELEVANCE OF TECHNOLOGY

In this context, what should be the most appropriate test of relevance to be applied to technology for India today? Is it the ability to catch up in sophistication of products? Is it the production of better armaments, faster vehicles or bigger buildings? Perhaps only some of these, and certainly many others, are necessary. But the most relevant need in our country today is economic development, especially of the less privileged sections mostly located in rural areas.

There is a tendency to overrate technology merely because it produces something new or sophisticated or because it is imported. Much of the technology that is relevant to our current economic development will have to be for the production of more basic and therefore apparently simple products like foodgrains, edible fats, low cost housing, etc. Just because the end product looks simple, the technology need not be considered less sophisticated. Very often the technology for such basic needs cannot be imported and has to be developed indigenously. Therefore, such technology tends to be devoid of the label 'imported' which is almost synonymous with 'sophisticated'. We must learn to value technology more for its relevance to our basic needs than for any labels.

With that as the touchstone for grading technology, we should not be concerned so much with the complexity of any technology as with its potential to contribute to basic economic development.

It is also necessary to draw a distinction between what is spectacular and what is relevant. When ancient astronomers predicted the movement of stars or modern technology placed a man on the moon, it was spectacular. Popular opinion is most impressed by such spectacular feats of science and technology. But often the spectacular is not relevant to the generation that is impressed. They become relevant, only to the extent of, and only when, consequences from such feats benefit a sizeable part of population. And this usually takes a long time. For instance, the study of astronomy had over a period of time benefited early man in his planning of agriculture as it could indicate the periodic change in weather. Perhaps one day when the earth is overpopulated or new resources have to be imported from other planets, the space technology of today may have more direct relevance to the common man. The spectacular feats have to be thus converted into relevant technology before they become useful.

In the intervening period, in addition to spectacular achievements, each country has to try and develop what is currently relevant to its needs because all of us live in the short term. And the poorer a man or a nation is, the shorter is the available time horizon whether it is for planning or for reaching the end of one's tether.

EXAMPLES OF RELEVANT TECHNOLOGY

It will now be interesting to formulate some examples of technology that would be relevant to India. Over 70% of our population lives in rural areas and are engaged in agriculture. About 50% of our GNP is derived from agriculture. Therefore, anything that would improve agriculture would be at the top in any ranking by relevance.

Agriculture starts with the preparation of soil. Of course, everybody knows that it is best done by modern mechanical implements and a tractor. But how many farmers in India can afford to buy a tractor costing Rs. 60,000 and then to run it. It is no wonder that we have only about 300,000 tractors in the whole country. Therefore, to seek a solution exclusively through such advanced technology has only limited relevance in our country today. Let us, therefore, consider how the present system of preparing the soil by using bullocks and the plough can be improved. Is there a way of improving the tractive power of the bullock? An innovation which revolutionised agriculture in medieval Europe (in the eleventh century) was the adoption of a horse collar instead of a band across its breast. The band used to constrict the horse's windpipe whereas the collar pulling on the horse's shoulders did not create such a disadvantage. The result was a five-fold increase in tractive effort of the horse. Will it not be very relevant for one of our Institutes of Technology to study the problem of improving the efficiency of ploughing with bullocks or buffaloes?

Another area of great importance is the provision of improved seeds which can improve productivity of agriculture. Although very commendable work has been done in wheat, cotton and even castor seeds, there are very important crops still neglected, e.g. oilseeds.

Yet another facet of agriculture is the use of agricultural and forest waste. The production and use of gobar gas is an example of this. But the biggest product of agriculture is the cellulosic material it creates in very much larger quantity than the millions of tonnes of cereals and pulses. After all, cellulose is not chemically very different from carbohydrates. Can a technology be evolved to upgrade it for human or more effective animal nutrition?

The whole field of water management for agriculture is something that agricultural scientists alone cannot tackle. Are we attracting enough civil, mechanical and chemical engineers to evolve new technology for (a) conserving water, and (b) more economic utilisation of water?

These are a few examples (necessarily somewhat speculative) which could illustrate what could constitute "relevant technology" for India. But to pursue such relevant technology, it is necessary to engage and attract a larger proportion of our new generation of scientists and technologists away from the spectacular and the seemingly sophisticated to the relevant. Will it not be more relevant for a larger proportion of our young engineers to work on problems of agriculture than on computer technology? Of course, the country needs both but perhaps more of the former. Yet, at present, our young technologists seem to be more attracted to the latter. What seem to attract them to such glamorous areas of technology are the monetary rewards and the professional recognition that are more readily obtained in those areas. Therefore, it is very necessary to make the rewards and satisfaction more attractive in the more relevant areas. For the cumulative effect of a large number of even minor improvements in agriculture, transport, mining and production of basic goods can be far more important to our economy than occasional dramatic feats in highly advanced technologies.

OUR CONTRIBUTION TO RELEVANT TECHNOLOGY

Responsive Evolution of the Company

Your Company has evolved over the decades and has responded to this era of technology and science. This Company started in the last century as a trading company, which imported and sold goods through agents. Later on it became a marketing company with managers who were engaged to find out what the consumer needed and to serve the market accordingly. The next stage was for us to become a manufacturing company. This led to a mastery of technology involved in our manufacturing operations and a widening of the technological base. And the most recent stage in this evolutionary process has been our investment in science, i.e. R & D in the last 20 years. This has provided more basic understanding and thereby further enriched the technological base, and its relevance to the needs in India.

There has also been a corresponding change in the composition of the Company's management team. Today more than 50% of our managers are scientists and technologists and it is no accident that three out of the four Chairman appointed in the recent past have been technologists. This responsive evolution of the Company has enabled it to make contributions in science and technology related to the areas of our business.

Examples of our contribution

Let me now give you some examples of relevant technology that has been developed and used or is in the process of development, as a result of our investment in science and technology.

Oils & Fats

Our major area of expertise and interest—one flows from the other—is that of oils and fats. As a result of almost 15 years of R & D work, we have obtained an insight into the chemistry of most of the oils and fats available in India and have developed original plant-scale processes to upgrade unconventional oils for use in consumer products.

(i) Let us take the example of castor oil. Scientists have known the fatty acid composition of castor oil for many decades and the fact that ricinoleic acid in castor oil causes undesirable properties if used in soap making. Therefore, castor oil, although nonedible and available in large quantities (almost 100,000 tonnes per annum) could be used and is still used by most other soap manufacturers only in a very low proportion in soap making. Higher usage causes problems both in processing the soap and in the quality of soap in usage by the consumer.

Yet, higher levels of usage of castor oil in soap making would not only release from soap making a corresponding quantity of possibly edible oils, but also provide a more steady and better value for castor which is cultivated mostly by marginal farmers. As India is a fat-short economy, it would also result in saving import of oils.

These considerations led us to examine castor oil more closely. While the concept of dehydroxylation of castor oil had been known widely, we developed for the first time the optimum conditions for plant-scale dehydroxylation in such a manner as to render the processed triglyceride suitable for increased usage in soap making. This process has been patented by us. In actual plant operations, further improvements have been made and as a result, today we are in a position to use about 20,000 tonnes per annum of processed triglycerides from castor oil. We are now working on further improvements in technology, e.g., vapour phase reaction to improve efficiency and to provide a still better quality product.

(ii) Or take the case of sal fat. When a forest contractor from Orissa approached us several years ago with a small quantity of sal seed, it was known that it had sal fat which had a very greenish colour but could be used in the manufacture of certain grades of soap. So we encouraged him to collect and supply the seed for extraction. The sal tree sheds its seeds in the forests of Orissa, Madhya Pradesh and Uttar Pradesh, in a few weeks before the monsoon. The collection and usage of sal seeds have a greater relevance as it provides productive employment and income (*albeit* seasonally) to a large number of the most underprivileged people in our country.

It was known that sal fat has a triglyceride configuration which could impart quality characteristics similar to cocoa butter which is very expensive and is essential for the manufacture of chocolates. But this knowledge had to be translated into technology which could upgrade the crude fat into an acceptable triglyceride. We have succeeded in doing so through fractional crystallisation and in finding a market for it among the chocolate makers of the world. The process is now in plant-scale operation and in 1975 we exported 2,200 tonnes to earn foreign exchange of Rs. 4 crores. But still there are areas of ignorance around the chemistry of sal fat. We still do not know the trace impurities that seem to cause considerable variation in the user characteristics of the end product. Is it caused by something in the different species or in the soils? Does it happen during storage or extraction? R & D work continues.

Nutrition & Biology

Because of our involvement with foods, we have developed over the years a R & D nucleus in biological sciences. An area of great interest to us is human and animal nutrition—both of which are of considerable relevance in our country.

(i) A significant contribution was made by us in the formulation of an economic but nutritionally balanced diet for the 'Sukhadi' programme operated during the famine of 1972 in Maharashtra. Our R & D laboratory evolved the formulation which was freely given to and adopted by the relief agency operated by Maharashtra Government through Sadguru Seva Sangh. It was a very gratifying example of how R & D in the private sector could contribute to public programmes for alleviation of suffering.

(ii) In the field of animal nutrition it is now possible to observe and analyse the process of rumination and digestion in a live animal by a new method of fistulation. This enables scientists to understand more fully how a goat or buffalo derives its nutrition from different materials it consumes and how these materials undergo changes during the period of their being processed in the ruminant's stomach. Such a scientific understanding will lead to better formulation and nutrition.

(iii) Another very different but interesting piece of biological work our scientists have completed is with regard to prawn farming. Instead of having to harvest the prawns from the sea, can we grow them in ponds in the wasteland near the sea or inland? This could make considerable difference to the fortunes of the fisherfolk who have an uncertain source of income. Selection of variety, formulation of special feed, optimisation of conditions for growth etc. were areas of research. As a result, we have evolved a process for prawn farming which is ready for large-scale trials. Since we are not in a position to exploit it commercially, this technology is available for exploitation by more suitable agencies.

(iv) Complementary to our work on oils and fats and because of our involvement in the area of animal nutrition, we have developed technology for detoxification of several conventional and unconventional oil cakes. For example, Indian groundnut extractions are at a discount in the export market, (mainly Western Europe) because of the possible presence of a toxin called aflatoxin. Cottonseed extractions cannot be used in significant quantities in feeds for non-ruminant animals because of the toxin gossypol present in it. Sal extraction has tannin as a toxic element in it. We have now developed processes for detoxification of all these. Our scientists are working on detoxification of even one of the more difficult cakes, namely castor cake. We believe that blessed with a significant amount of sunshine which is the source of all photosynthesis, India has the potential to be a supplier of protein to the world—provided we can develop technology to process and upgrade our proteins.

Toxicology

This is a branch of science and technology which is new to our country except in the pharmaceutical and medical world. But as we are using increasingly more indigenous unconventional materials, it is necessary to undertake toxicological testing to determine the safety of these materials in actual use. For example, before raw or processed sal extraction was used in cattle or poultry feed it was necessary to determine the toxicological effects and safety limits. Several new techniques in toxicology have been introduced and adapted by our scientists for such testing.

Agriculture

A major part of our business is based on agricultural products—oils and fats, oil cakes, etc. We know that it is essential to raise the production of oilseeds in India. In addition to funding extension work on groundnuts through the Vanaspati Manufacturers' Association, we have now directly undertaken research in sunflower which we think holds significant promise in this country as it did in USSR, Eastern Europe, Turkey and lately in Pakistan. The major problem with regard to sunflower is the evolution of a suitable variety for India. We have initiated varietal trials and breeding by our own agricultural scientists. Can we get a sunflower that will droop and prevent picking of seeds by birds? Can we get more drought resistance? Which variety will give more yield? We are seeking answers to these and similar questions. Although we are not going to be directly involved in agriculture, we hope to make effective use of our find'ngs through universities and extension work. The experience we had gained in upgrading the variety of peas (from desi to Bournvelle) in Western U.P. in the sixties and from the extension work with essential oil plants in U.P., Assam and South India is now proving useful in this new effort.

Chemicals

We are makers of chemicals—catalysts, fine chemicals, oleo-chemicals—and in future, heavy chemicals.

(i) A significant contribution has been in the manufacture of Nickel Catalyst for hydrogenation. In addition to providing an improved variety of catalyst through R & D, 80% of nickel requirements can be met from recycled material thereby effecting significant saving in imports.

(ii) Our Fine Chemicals manufacture receives considerable backing from R & D. We have evolved processes for as many as 20 chemicals in the last few years. In one of them the technology is available only with two other parties in the world. We have already agreed to sell this technology to another party in India.

(iii) R & D of even greater relevance but in a somewhat longer time span is our attempt to use microbiology for production of chemicals. One of the most significant advances in science in recent years has been the understanding of biology at the molecular level. This enables us to manipulate bacteria and use them for specific purposes. We have already succeeded in producing glycerol from molasses biochemically at twice the concentrations reported in previously published work. We are now working on biochemical conversion of an agricultural waste into a chemical which could revolutionise a common household product. These are bordering on the speculative, whose relevance may be only in the future,. But in the meantime we have developed a very sound base in the understanding of mutation of micro organisms, the technology of fermentation and all the allied scientific and technical problems and a capability in the emerging field of biochemical processes.

Process Technology & Equipment

A very important area which is somewhat neglected in our country is that of process technology. All R & D does not have to begin with the fundamentals of science. A very rewarding base for R & D is existing processes in established industries. It has a great deal of relevance in India because of the following reasons:

(a) Engineering technology in India has advanced considerably in the last 20 years and therefore it is possible to undertake R & D in process technology.

(b) Process efficiency has to be optimised with reference to consumption of materials, quality of product, cost of equipment, usage of labour and energy. The balance of these factors are in many cases different in India as compared to more developed countries. Therefore, the technology relevant to us could be different and has to be developed and assessed locally.

(i) Take, for example, the extraction of glycerol from soap. Through R & D we have been able to develop a technology which is unique in India and which does not require high speed centrifuging (involving imported equipment and high power consumption) and yet extracts the glycerine with high efficiency. It takes a little more space and labour both of which are cheaper in India than equipment of energy.

(ii) Or take the manufacture of synthetic detergents. We have by now developed the technology for manufacture of all the equipment required for sulphonation, high pressure blowing, airheater, control panels etc. so that the entire plant can be indigenous. And there are many other examples of developing process technology and equipments more relevant to our needs.

MANAGEMENT OF SCIENCE

In the old days, scientists, like artists, had to be left almost entirely to be guided by their inspirations. Most scientific work centred around individuals. These characteristics still persist in academic science.

However, for the successful application of science and technology to industrial and economic development, the effort has to be managed. First of all, there has to be an agreed set of objectives for R & D work. Secondly, those who are responsible for sponsoring the work as well as the scientists who carry out the work have to accept the discipline of accountability. Thirdly, most scientific work today has to be conducted as team work involving inter-disciplinary effort which in turn has to be dovetailed to economic objectives. All these call for management of science.

In fact, in the absence of such management of science, frustrations can arise among scientists because of (a) lack of direction and purpose for their work; (b) the absence of accountability either to evaluate or to utilise their findings; and (c) the absence of linkage with, and feed back from, end-users of their technology. The scientist and technologist need direction, recognition, reward and restraints like all other managers do. These can be provided through the well-understood principles of management. This is necessary to make science and technology relevant to agreed objectives.

Your Company has acquired some valuable experience in the management of science. We have instituted a system of Projects Planning and Monitoring. A major part of R & D work consists of projects each of which has been discussed and agreed with the relevant operating management group in the Company, which is responsible both to provide the funds for the work, as well as for utilising the results of the R & D work. Each project has an agreed set of objectives, an estimated cost, an expected time span for completion and an approximation of the chances of success. On the basis of these parameters the operating business group and the R & D group enter into a mutually accountable system of monitoring progress.

However, while the operating management are organised according to product groups, the R & D personnel are organised according to scientific disciplines. Any given project may require a combination of different scientific disciplines e.g. Organic Chemistry, Surface Chemistry and Chemical Engineering. To reconcile these, a matrix form of management is used whereby scientists come together in inter-disciplinary project teams while still remaining as part of their respective disciplinary groups.

This system of managing science has resulted in (a) more purposeful results from R & D ; (b) greater satisfaction and recognition for the scientists who can see all their work evaluated fairly and many of them adopted in practice; and (c) better appreciation and responsibility for R & D work among senior operating managers. In short, it has made R & D more relevant to the business.

However, we are conscious of the fact that in our anxiety to pursue what is relevant for today, it is necessary to preserve and nurture the spirit of scientific exploration. Therefore a portion of our R & D effort is left to the total discretion of the scien ists and technologists without any immediate linkage with the operating business. This freedom to explore is vital for the scientist to preserve his skills and to seek excellence. Thus our management of science tries to achieve a blend of excellence as well as relevance.

CONCLUSION

We are in the business of developing technology that is relevant to the consumer—in the India of today and tomorrow; in the India of small towns and villages.

Relevance is dynamic; it changes with time. Therefore, whilst we should always apply the test of relevance to technology, we should also look ahead to see what might be relevant tomorrow. It might involve some projects that may appear to be speculative. Can we make synthetic fatty acids from petroleum and do so more economically than the Russians and the Japanese? Can we upgrade cottonsseed protein to make it edible for human beings, thereby making available over 2 million tonnes per annum of protein source richer than wheat? Can we find out more about ageing of people—what causes their skin and their hair to age? Can we understand more clearly the way toxins work and create processes that will eliminate toxins from materials that can be used for animal nutrition? The answers to these and similar questions may provide some of the technology that will be relevant for the socially purposeful survival of your Company.

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

Mahindra Ugine Steel Company Limited

Statement of the Chairman, Mr. Harish Mahindra

Following is the statement of the Chairman, Mr. Harish Mahindra to the Members on the occasion of the 13th Annual General Meeting of the Company held in Bombay on the 28th June, 1976.

THE EMERGENCY declared in June last year was in many respects a catharsis. There have been many gains from this drastic measure. It has brought about disciplined conduct in public life. It has enabled the initiation of progressive socio-economic policies.

Since the middle of last year, there have been other important gains including political and economic stability, which are so pivotal for progress and which constitute a bulwark for rapid growth. In this sense, in the past a heavy price has been paid in terms of lapsed time by including in the luxury of disturbance and disorder. Having performed this quantum-jump from chaos to order, let us resolve that there will never once again be an atavistic reversion to the politics of turbulence.

Business has been successfully interacting with the Government and there are no major differences of opinion between the two as regards the broad aims and objectives of economic growth. But in the formulation and implementation of policies in respect of complex issues, it is not unexceptional that there is no unanimity. Nevertheless, there is a frank exchange of views between the Government and Business at every point of contact. There is also a general undercurrent of liberalism in most Government policies. It is the business of Business to take full advantage of the present helpful situation and boost industrial investments. Our latent promotional capabilities must be stretched to the maximum extent.

While the climate for rapid advancement in the economic field is now most conducive, there are, however, a few policy areas where clearer thinking is required. For instance, the price situation appears to be the arbiter in much of decision-making in regard to pulling industries out of dull business conditions as well as in regard to quickening the tempo of growth and development. The Government itself has acknowledged the state of listlessness in several ways, such as by the introduction of fiscal measures to provide relief and to expand demand, increasing the plan outlay for Centre, State and Union Territories by an unprecedented 31.6 per cent in the current year over the previous year, liberalisation of imports to actual users and exporters and so forth. What needs to be underlined here is that although the proposed outlay for 1976-77 of Rs. 7,852 crores constitutes the largest step-up in investments, nevertheless during the last two years of the Fifth Five-Year Plan as much as Rs. 18,588 crores would have to be raised or an average of Rs. 9,294 crores during the two year period ending 1978-79, if the Fifth Plan outlay of Rs. 37,250 crores is to be met. This would pose a formidable challenge not only to the Government but also to the private sector, from which during the Fifth Plan period there would be a net transfer of resources of as much as Rs. 14,000 crores. The point here is that Industry could be said to be poised for rapid growth only when they have no short or long-term problems of serious under-utilisation of established production facilities. This aspect has not received the attention it really warrants. Secondly, there is as yet no Fifth Plan document delineating these issues so that the units and individuals both in the Public and Private Sectors may brace themselves to the tasks ahead. Thirdly, it was a totally different set of circumstances, high speed inflation in particular, that decreed a package of stringent measures, which I have mentioned earlier. Although the objectives of anti-inflationary strategy have been achieved, this has not been without a sacrifice of buoyancy in the economy and a contraction in economic activity, the tell-tale signs in this respect being the post-haste fall in the demand for a number of items like steel, cement, fertilizer, textiles and others. Therefore, keeping in mind the leads and lags that revival measures involve — longer than those of deflationary measures—a returning of the economic policies particularly those relating to credit restraints and interest rates brooks no delay, especially for purposes of hastening the expansion in economic activity. It should be added that while enforcing the Tandon Committee norms, a special effort may be made not to leave out of account the peculiar difficulties of individual borrowers and where there is justification, a relaxation may be made in such norms. At the same time the Banks may be free to oversee the end-use to which the credit has been put.

White Paper on Steel

Earlier this year, in my capacity as President of the Federation of Indian Chambers of Commerce & Industry, I had emphasised the need to think in unconventional terms to promote India's development. In

this context, I had suggested that to bring about a transformation of our predominantly agricultural economy into an industrial one, we must have an ambitious 10-year plan providing for 100 million tonnes of steel, 200 million tonnes of cement, 250 million KW of electricity generating capacity and so forth. It is heartening to note that the Government themselves are thinking along the same lines. In this White Paper on the 25-year roll-on development plan of the Iron and Steel Industry laid on the table of the Parliament last month, a tentative target of around 75 million tonnes of steel-making capacity by the end of the century has been hinted at. The investment cost per tonne would amount to as much as Rs. 14,000 in 1993-94 as against Rs. 4,600 1974-75 at the present rates of inflation. However, it would be misleading to give a per tonne capital cost of Rs. 4,600 or Rs. 14,000 or any other figure without mentioning the nature of the post-ingot stage facilities intended to be created, inasmuch as the product-mix has a bearing on the capital cost.

Economics of EF Operations

The role of the Electric Arc Furnaces, which at present have an installed capacity of about 3 million tonnes and a licensed capacity of 5.5 million tonnes (liquid metal) in augmenting production appears to be de-emphasised for two reasons. Firstly, even at present there is an acute shortage of scrap, availability being of the order of 2.2 million tonnes and requirements, if the furnaces are worked to full capacity, being almost double that. The units in the Electric Furnace Industry have been working constantly under the fear of soaring scrap prices every time capacity utilisation in the Mini Steel sector goes up beyond 40/50 per cent. As a solution to the emerging shortage, a far-sighted decision has been taken for setting up a string of sponge iron plants all over the country. Assuming that by 1985 all the licensed capacity of 5.5 million tonnes would have been installed and there would be adequate availability of power and the feedstock of scrap/sponge iron, to work such units to their full rated capacity, the EF Industry inclusive of the Castings and Alloy and Special Steel sectors should be able to contribute about 4.5 to 5 million tonnes (depending upon the progress in implementing the projects) or between 25 to 35 per cent of total steel production.

In about 5 years when the Bombay High yields 10 million tonnes of crude oil and when gas from the Bassein structure, where large volumes of reserves have been discovered, would also be tapped, there would be an abundance of this strategic fuel and energy source. This potential surplus has awakened interest in Midrex and HyL Direct Reduction Processes based on natural gas, inasmuch as, they would provide a solution to the appropriate use of such a bonanza. The authors of the White Paper, from this angle, should be commended for alerting the authorities that they should be ready with Sponge Plants by the time gas starts flowing, which, according to the Minister for Petroleum, would be not later than 2/3 years.

For the Electric Furnace Industry, the year 1975 was a very difficult and trying one. Over a hundred units shut down their operations, being not able to find a market for their products. They were priced out of their stronghold viz. Bars and Rods market by the Integrated Steel Plants. After numerous representations to the Government in regard to the inherent cost handicap of the Electric Furnace Process, the Union Government took a sympathetic view in November last year and reduced the effective rate of excise duty on ingots produced in Electric Furnaces from Rs 200 to Rs 50 per tonne. There is ample justification for elimination of the whole of the balance of the excise duty of Rs 180/- on Electric Furnace products, inasmuch as they are made out of steel scrap, which in its prime steel condition has already borne its full share of the excise burden. The Government has actually accepted this logic by totally exempting from excise duty products of the Re-rolling Industry made out of re-rollable scrap, inasmuch as the burden of excise duty had already been imposed on such scrap when it was prime steel. Just because the process of recycling is much longer in the case of EF Industry, there is no justification for not going by the same logic.

In this setting, the January 1976 decision of the Supreme Court in the case of the State of Tamilnadu V/s Pyarelal Malhotra, setting aside the award of the Madras High Court and restoring the orders of Sales Tax authorities would not only impose a fresh burden on the Electric Furnace units, but would also push up their prices making their products still more unattractive and uncompetitive. It has now been held that iron and steel manufactures even if they are made out of ferrous scrap material which has already borne the Sales Tax in one way or the other could be taxed again. Manufacturers and dealers would not be entitled to the customary resale claim albeit the fact that the different sub-entries belong to one single category of 'declared' goods viz. iron and steel. At one stroke this new burden has taken away a sizable chunk of the benefit derived by electric furnace units by way of reduction in excise duty from Rs 200 to Rs 50 per tonne.

Excise duty relief, the lifting of the restrictions on construction activity, the slightly better price realisation for electric furnace products in recent months and a couple of other favourable developments have not so far served to resuscitate Mini-steel units and they continue to languish. The increasing trend in the prices of scrap over the past four months has not made it any the easier for them to start afresh. The loss in terms of employment, national income, revenue to the Government, and delays in the repayment of loans and interest to term-lending institutions/banks and so forth are by any criteria grave and pressing issues that call for urgent aid to restore health and vigour. A package of policy measures including financial succour, cash incentives for exports and total exemption from excise duty and sales tax at the product-stage would definitely revive this vital segment of the Steel Industry.

Diversification of the product-mix of the Mini-steel units into Alloy and Special Steels as a solution to the crisis in the Industry is firstly not always feasible on account of several practical constraints such as lack of funds for additional technical inputs as well as for sophisticated plant and equipment and others. Secondly, according to the estimates of the Ministry of Steels themselves, where such diversification is feasible, the market for Alloy and Special Steel being limited, it would very soon be saturated with supplies, even if a fraction of the total number of units opt for such diversification. As it is, the existing and established units in the Alloy Steel Sector are faced with the problem of unlifted finished products and loan order books.

In this somewhat disheartening situation, one welcomes the appointment of two well-known consultancy firms for the purpose of undertaking an indepth study of the technical inadequacies, requirements of balancing equipment and other related issues. It should be hoped that their recommendations would improve our insight into the nature of the problems and particularly, how best the immediate and long-term development programmes of the tonnage steel plants can be interlaced with those of the Mini-steel units. Also the announcement regarding the proposed creation of a separate cell for the Mini-steel units in the Ministry of Steel has not come a day too soon. The cell should enable the Government to bestow special attention on the plight of the units and come forward with relief measures more promptly.

The wide gap between the requirements of scrap and its availability is not only in the case of the higher density categories of steel scrap but also in respect of those on the merit list for export purposes. Besides the better use of all available indigenous scrap, this predicament would necessitate its improved collection and recycling as also imports of substantial quantities thereof. Under these circumstances it is puzzling as to how one could come forward with a suggestion to relax the present export curbs! The suggestion if implemented would be detrimental to the EF units in more ways than one. Exports would not only accentuate the requirements-availability imbalance but would also push the scrap prices up to the exhorbitantly high levels of mid 1974, adding still more units to the sick and infirm list.

In regard to imports of melting scrap which is likely to become a sheer necessity if demand for the products of the Industry picks up and the power position is satisfactory, it must be pleaded that since so far there have been no imports and the present duty of 40% on scrap has been only a paper source of revenue and has not yielded any revenue to the exchequer, it might as well be scrapped. Imported scrap should also be inexpensive if it has to be used at all. It is advisable that the MSTC through which imports are canalised in consultation with the Industry draws up a plan for scrap imports after duly satisfying itself about the quantum of the emerging scrap shortage.

Power

As against the average power deficit of about 3% in the country, Maharashtra has a deficit of more than 5%. In absolute terms the shortage of power in Maharashtra is reported to be about 2 million KWH per day. The power cut in the State continues to inhibit production and viewed from a perspective planning angle, the shortage of power in the State is likely to assume alarming proportions in the years to come, unless steps are taken on a war footing to increase the power generation in the State by establishing super-thermal stations. Sooner the integrated grids are created, greater would be the flexibility for diverting power from the surplus States.

The cost of power supplied to Electric Furnaces is of decisive importance in the overall cost of production. Next to scrap, it is the largest cost element in electric furnace steel production. Therefore, power is not only a prime mover but also a basic raw material. The power cost in Maharashtra for electro-metallurgical operations works out to more than 22 Paise per unit as compared to an average rate of 16.64 Paise in the Punjab, 18.23 in Rajasthan 18.30 in U.P. and 17.04 in M.P. I, therefore, reiterate my earlier pleas that restructuring of the tariff for electro-metallurgical industries in the State of Maharashtra with a view to bringing down the unit cost, should not be deferred any longer.

Expansion

With the fruition of the merger of Bank of Baroda Ltd. with the Company, I have now great pleasure in welcoming the shareholders of the erstwhile BOB Ltd. into our family which will, thus, get enlarged to around 13,700 shareholders. You would not have failed to note in the Balance Sheet that during 1975, compared to the relevant data for the previous year, there have been sizable increases in all assets. This is mainly on account of the receipt of about Rs 8.15 crores in the form of deposits and cash, consequent to the amalgamation of Bank of Baroda Ltd. with your Company.

This amount has been earmarked for the expansion programme already underway.

There has been satisfactory progress in the implementation of the project for expanding the capacity from 24,000 tonnes to 60,000 tonnes per annum of finished tool, alloy and special steels. Most of the major items of plant and equipment are expected to be received between the 4th quarter of 1976 and the 1st quarter of 1977. Excavations for buildings and plant and equipment foundations have practically been completed. Considerable headway has been made in fabricating the steel structures for the buildings. The 4th bay of the heat treatment and finishing shop building is nearing completion.

Your Company is making a reappraisal of the capital cost of the expansion programme, having due regard to the steep appreciation in the values of foreign currencies in terms of the Rupee, escalation in cost of plant and equipment and the need for import of certain items of plant and equipment originally contemplated to be procured indigenously.

The expansion project is scheduled for completion by the end of 1977. Once commercial production at your Company's 60,000 tpy. plant is established, it will be geared to meet the special requirements of some of the key and strategic sectors, such as, defence and defence-oriented industries, commercial vehicles and automobiles, tractors, aircraft, atomic energy, space technology and so forth.

Outlook

The working results of the Company during 1975 have been dealt with in the Directors' Report. I am happy to inform you that your Company's order book position continues to be satisfactory mainly on account of the reputation your Company has built up as a dependable supplier of sophisticated alloy and special steels notched to the special requirements of individual consumers. Total sales realisation during the first 5 months of the current year were of the order of Rs 668.07 lacs as against Rs 514.22 lacs and Rs 538.73 lacs during the corresponding periods of 1975 and 1974.

It is heartening to record here that your Company has been exploring several other business avenues with a view to broad-base its business activities. Firstly, as has been stated in the Annual Report, we are in the process of acquiring 14,500 Equity Shares in the Capital of Wheelabrator Alloy Castings Ltd. (WAC). WAC's Plant is located very close to our Plant in Khopoli. We have offered technical assistance for putting the operation of WAC on a sound footing. The terms and conditions governing the offer of technical assistance would be of considerable benefit to your Company, as it would enable your Company to utilise optimally its own post-ingot stage facilities, particularly after Expansion. Secondly, the Merchandising Division of your Company has made a beginning in the exports of pharmaceutical intermediates.

Note : This does not Purport to be the Record of the Proceedings of the Thirteenth Annual General Meeting of the Company.

Haryana Financial Corporation

Speech of the Chairman, Shri M.C. Gupta, I.A.S.

The following is the speech of Shri M. C. Gupta, I.A.S., Chairman, Haryana Financial Corporation, delivered at the Ninth Annual General Meeting of the shareholders held on the 21st June, 1976 at Chandigarh.

Friends,

I indeed feel privileged in meeting you, the shareholders of the Haryana Financial Corporation, this day to present to you the Directors' Report and audited statement of accounts for the year ending 31st March, 1976. These documents have been with you for some time now and I trust I have your permission to take them as having been read. The year under reference has been, perhaps, the most significant in the post-Independence era. A year ago, almost to the day, the country was struggling to get out of the quagmire of indiscipline, dissensions, runaway inflation and a general contempt for law and order. The common man and the small entrepreneur had to pay the price as man-made shortages and the distorted pricing of articles of daily need both for consumption as well as inputs kept on soaring. The parallel economy which is gathering greater momentum held a vicious grip on the economy of the nation. The strong measures taken a year ago to restore the economic and social order came as a shot in the arm. The nation has not looked back since. The cumulative effect of the vigorous drive launched against the smugglers, the tax-evaders and the hoarders and other anti-social elements, alongwith greater emphasis on providing support to legitimate productive endeavours, the rationalisation of credit facilities so as to withdraw credit from those who were seeking to enrich themselves at the nation's expense, the diversion of these funds for better use and for augmenting production, and a general toning up of administration, simplification of the licensing procedure brought about a stabilisation, in fact, even a reduction in the price-index to the relief of everybody and to the envy of some other countries who had been unsuccessfully trying to achieve a similar objective. Utilisation of the capacities has increased many fold and recent studies have indicated that even the much maligned public sector undertakings have miraculously within a span of an year, reached record levels of output and have in some cases crossed the capacities installed. Amongst major decisions taken may be listed the emphasis on revival of sick units subject to their inherent capacity to add to overall product on levels within the country, unqualified support to bonafide export oriented production in the hope of trying to stabilise balances of trade and payment in the shortest possible time, the elimination or liberalisation of many licencing requirements both for the establishment of new units or for expansion or enhanced utilisation of existing ones, reduction in the ceiling of interest rate for bank credit, emphasis on recoveries of the defaults committed without due justification, and the establishment of the Industrial Development Bank of India as the apex financial institution with new goals and redirected targets.

2. The year 1975-76 is expected to yield an unprecedented growth in real national income of 7 per cent including an almost 9 per cent growth in the agricultural sector (the latter comprising as much as 11 per cent in foodgrains). The growth rate achieved is well above the plan target of 5.5 per cent. According to figures just released the year 1975-76 showed an industrial growth of 5.7% well above the anticipated 4.5%. Metals registered the most significant increase in this period. Part year comparisons for 1975-76 against corresponding period of 1974-75 appeared to indicate as much as a 102 per cent increase in Copper, 20 per cent in Aluminium and more than 15 per cent in Steel. Like-wise chemical based industries, coal, automobile tyres, sugar, vanaspati, soap and many other industries also registered significant increases. Despite concerted efforts, however, indications for real per capita income indicated only a growth of the order of 5 per cent in view of the more than 2 per cent population growth rate estimated. While Government have recently taken a number of decisions with the intention of restricting growth in population, it is unlikely that the figure would diminish very rapidly and consequently efforts must continue to be made to achieve more significant break through in industrial and agricultural production. While generally speaking there has undoubtedly been a very salutary impact on the state of the economy, there have also been certain side effects. Amongst the salutary effects may be cited for instance the easy availability of steel following largely from increased production by the public sector undertakings which, apart from the slowing down of construction activity as well as of new industrial investments led to a drop in its price. Amongst the side effects may be listed, on the other hand, the fact that most of the small steel plants were knocked out of the market. This is a phenomenon by no means restricted to steel and the fact undoubtedly is that the increased production in such industries where investments had been made without the anticipation of full utilisation of capacities made them suddenly become excessively competitive and even unremunerative, a situation which was aggravated by the inevitable slowing down of investments precisely for the same reasons, and a generally recessionary outlook in the earlier part of the year. But as I have said, I do not expect the temporary re-adjustment problems being faced by the economy to be of a long lasting or quasi-permanent nature and I am confident that these will sort themselves out in the near future. The greater degree of productivity brought about in an economy previously verging on a state of total arbitrariness is in my view a highly welcome change.

3. While the encouragement being offered to production in the current policies of Government will undoubtedly encourage the economy, the fact that a stage has now come when further investments require to be made on the basis of a careful analysis and projection of capacities available and utilised, and prevalent demand as anticipated, cannot be too highly emphasised. Ill-judged investment decisions, or investment decisions based on deliberate under-utilisation of capacity, are a national waste which cannot be permitted and instead all available resources must be diverted towards investment in nationally desirable and under-invested areas of industry only. The lead taken by the Government of India in re-defining such areas and, inter-alia, in setting apart items for the small scale sector must be very enthusiastically welcomed. It is sincerely hoped that Government would continue to revise their guidelines as frequently as possible and that entrepreneurs would abide by such policy guidelines. Should they not do so, concerned financial institutions must refrain from providing any assistance to such units.

4. While on the subject it may be worth stating that similar studies should be carried out and their results enforced in respect of small scale units as well. In the absence of available resources for undertaking detailed market, demand, and feasibility studies, the small scale investor is often guided in his investment decision by the performance of similar units in his neighbourhood. In doing so, he frequently loses sight of the fact that while a certain number of such units in a given area may be viable, further investments made by him, and possibly others, in the same area for the same product may make both the existing as well as the new units uneconomical for want of market, raw material, labour or other considerations. The inevitable consequence is that both the existing and new entrepreneurs as well as the supporting financial institutions end up by making inherently bad investments which not only fail to provide any return to any of the parties concerned but jeopardise investments previously made. We are already considering, from the current financial year increasing our emphasis on this aspect and of restricting investments of this nature. In our endeavours we devoutly seek the assistance not only of the entrepreneurs concerned but also of the various State level and Central level Government agencies.

5. One of the related problems which still remains to be attended to is the serious scarcity of essential and up-to-date data on which the entrepreneur and financial institution alike can base their investment decisions. The establishment of a really streamlined and effective organisation to collect, compile analyse and make available to all those concerned essential input and output data on the basis of rapidly collected and accurate statistics which are as upto-date as possible is long overdue. A national organisation from which an entrepreneur may be able to obtain within a matter of a few days up to-date information about availability of raw materials, prices, markets, costs, production levels and so on, alongwith projections for the future, would make the task of all conce very much easier.

6. To achieve production and investment levels of the required order, industrial investment shall have to be made very rapidly in such sectors of industry as require these investments. The extreme shyness which had become evident in the capital market and the reticence of entrepreneurs to make fresh investments in a somewhat unpredictable economic climate must be overcome, therefore, very urgently indeed. Advantage must also be taken of the revival of other economies quickly to develop to the extent feasible Indian exports to both established and developing world markets. The relatively low labour cost—a fact only on the assumption of equivalent labour output—can be utilised in the new climate of disciplined labour forces to the dual benefit of the country's employment needs and of its balance of trade.

7. In this scheme of things it would become imperative for all governments, government agencies, and financial institutions to take the lead in promoting productive investments with the minimum of delays and hesitations.

8. We, in the Haryana Financial Corporation have striven during the last year to keep in step with the need of the time and to play, according to our charter an effective promotional role in achieving national and state aspirations and goals. We have also been conscious of the fact that a financial institution such as ours has a very vital role to play in widening the industrial base of the country, in providing employment, and in increasing outputs, and above all we have been acutely conscious of the fact that if progress has been slow we and other institutions must squarely accept our responsibility for the general tardiness.

9. While the inflow of applications diminished significantly from a total number of 308 applications received for industrial loans in 1974-75 to a mere 194 such applications in the last year, and similarly, on account of the improved power situation, from 217 applications in the preceding year to merely 29 applications in 1975-76, the Corporation has not been idle in their disposal. Consequently, industrial loans were sanctioned to 194 concerns in the outgoing year showing an improvement of 33 on the previous year's figures of 161. In terms of business generated, we have succeeded in maintaining a growth rate in sanctions, even if nowhere near the galloping pace achieved in the earlier years. As a result we were only a little less than Rs. 6 lacs short of the Rs. 10 crore mark as on 31st March last with a cumulative effective sanction level of Rs. 42 crores approximately. Our disbursements, however, continued to grow rapidly and during the outgoing year we disbursed over Rs. 6 crores bringing total disbursement to over Rs. 29 crores as on the 31st March last. Along with the growth in our operations there has been a rapid growth in our earning and our gross income during 1975-76 crossed the Rs. 2 crores mark leaving profits before taxation at over Rs. 81 lacs.

10. Our performance in sanctions and disbursements has been particularly notable, apart from other reasons, because of the fact that lending operations for the acquisition of generting sets declined substantially as a result of the improved power situation, and our operations in favour of transport operators remained suspended during the year. One of the less prominent, but in many ways much more significa t, achievements was the reduction of the number of cases pending sanction and the time taken in sanctioning and disbursing financial assistance. Thus, as against 292 applications for assistance of all kinds pending at the beginning of the year, the number had reduced to merely 83 at the close of the year. We have also been successful in expediting decisions on loan applications received and, increasingly, it has been possible to sanction financial asistance where merited in a period of 2 to 3 months. Similarly, I believe that with an increasingly more realistic approach towards the problems of entrepreneurs, it has been possible to cut down the time taken between sanctions and disbursement. In order to aid beneficiaries and the Corporation alike in prompt decision making, the Corporation has brought out revised guidelines of a fairly comprehensive nature which are being made available to entrepreneurs seeking to apply for assistance from it. Apart from providing basic information on the schemes being offered by the Corporation, its procedural requirements and formalities, the guidelines also set down lucidly the essential data requirement without which it becomes difficult to process applications expeditiously.

11. Another interesting highlight of the Corporation's performance in the past year has been its operations concerning the development of backward areas. The Corporation has continued to increase its stake in financing industrial units in backward areas and was able to sanctions Rs. 2.72 crores to such industrial units as against Rs. 2.59 crores in the previous year. As has been mentioned in the Director's Report, while the number of units benefiting was less than in the preceding year, the amount sanctioned was somewhat higher and the indications seem to be that larger units are being increasingly set up in these areas.

12. Similarly support to small scale industries has grown significantly with a considerable increase in the amount sanctioned and, in this case, there is an increase also in the number of industries financed. We continued to extend during the year 1975-76 highly attractive concessions to units being set up in such areas with the result that a small scale unit availing of assistance of up to Rs. 2 lacs from the Corporation if situated in an identified backward area and if refinanced by the Industrial Development Bank of India, which made prompt repayments, needed to pay an interest rate of only 9.5 per cent on financial assistance of up to 80 per cent of its fixed assets.

13. Another attractive scheme which continued to be sponsored was the IDA Line of Credit. Under this scheme loans could be sanctioned by the Corporation for the import of capital equipment against a credit first made available by the International Development Agency in 1973. The Haryana Financial Corporation too played its part in securing the full commitment of the credit on a national basis within the stipulated time, and has thus enabled the country to negotiate for a second line of credit which will become operative from the current year. It would be a cause of satisfaction to all of you that the performence of the Corporation in this programme has been commendable.

14. One of the less satisfactory aspects of the Corporation's performance unfortunately has been in effecting recoveries. It is a matter of regret that a combination of factors, the most noteworthy amongst which was the persistent power crisis within the State, coupled with the operational difficulties of the loanees, handicapped the Corporation and its clients from achieving more satisfactory results. Within the constraints imposed by the overall economic climate, the Corporation has endeavoured to recover its dues to the extent possible and, in fact, in gross amounts we have succeeded in recovering, even if occasionally under duress, a higher amount than in the previous year. Total recoveries during 1975-76 was of the order of Rs. 2.58 crores against Rs. 2.01 crores in the previous year. Despite this, the gross amount in default increased from Rs. 1.22 crores to Rs. 2.34 crores. With the improvement expected in the general economic climate I hope it will be possible for us to gain ground in this aspect of our operations.

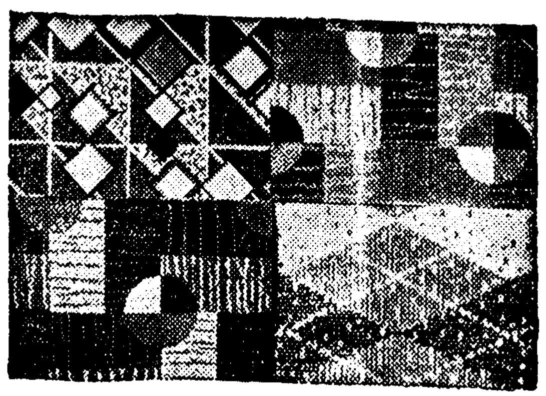
15. Finally it would be relevant for me to add that the Corporation has been endeavouring to bring about structural and organisational changes in order to better equip itself for the tasks which lie ahead. The outgoing year saw the initiation of an internal training programme aimed at better preparing its personnel for discharging the duties expected of them promptly and efficiently. In addition, some changes have already been made in the organisation and deployment of personnel and further extensive streamlining is on the anvil. It is contemplated during the current year to enlarge the services rendered by the Corporation so as to provide some essential merchant banking functions and possibly to extend this further in the direction of providing nucleus consultancy services, primarily for the benefit of the small scale entrepreneurs in projects which do not call for sophisticated technology, engineering or production methods. The basic objective is to provide under one roof a package of services, with speed and precision, and to remove thereby from the shoulder of the entrepreneur the burden of running from pillar to post in attempts to secure the multifarious services and clearances essential for the establishment of a project. How far we may be able to transform this ambition into reality is a matter on which, I hope to be able to report only next year.

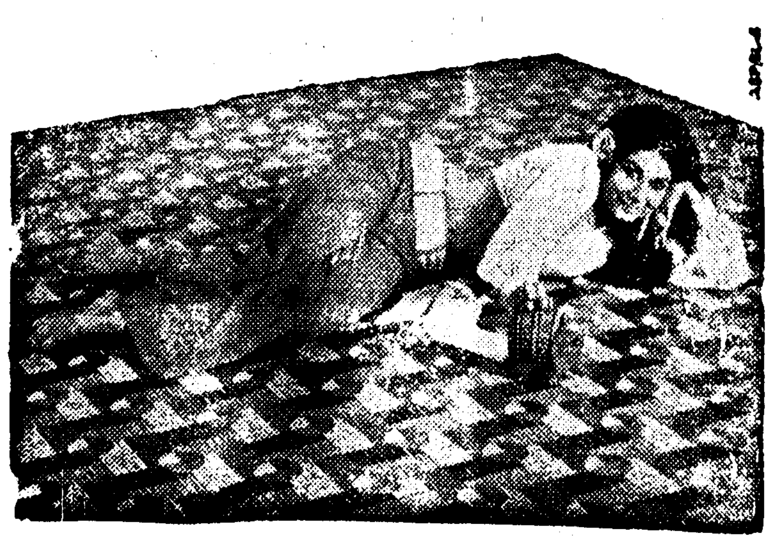
16. In conclusion, therefore, I trust that we may all look back upon the past year with some gratification born of the fact

that, whatever our shortcomings have been, and I, for one, would not dispute that there still remained many, we have indeed achieved a fair measure of success, and above all, the satisfaction that our endeavours have been in the right direction. In thus directing our efforts, my particular thanks must go to my colleagues on the Board of Directors of the Corporation in whom, despite the relatively short period in which we have worked together, I have come to acquire close confidence and trust, and from whom I have unfailingly received the utmost co-operation. We must also, I feel, acknowledge with gratitude the assistance and co-operation always made available by the Industrial Development Bank of India, the establishment of which as the apex body for institutions such as ours under the new set up must heartily be welcomed, the Reserve Bank of India, the Industrial Finance Corporation of India, the Life Insurance Corporation of India and the various scheduled banks, Government agencies, and all others in concert with whom we act, and I trust that in the future too we shall continue to receive their unstinted encouragement. While mentioning acknowledgements, it would be unpardonably remiss not to mention the outstanding contribution of my predecessor Shri S.K. Misra in building up this institution, and in inspiring it to provide the services for which it was established with dedication and zeal, over the years.

17. Of course, no institution may function, or may achieve any success, without the involvement of its staff and officers. Whatever may be the calibre of the Board of Directors, and whatever may their aspirations be, it is ultimately the personnel of the organisation who convert ideals into actions, targets into achievements. I must therefore, acknowledge the loyalty and industry of the staff and officers of the Corporation, headed by its Managing Director, Shri T.K. Banerji, who have striven without reserve to make the Corporation one of the leading institutions of its kind.

18. I am thankful to you gentlemen for the goodwill that you have always extended to your Corporation and for the trouble taken by you to be present here today. The balance sheet and the profit and loss account of the Corporation, alongwith the Directors' Report is now open for your consideration.





RECORDS AND STATISTICS

Export and production perspective: 1980-81

THE FEDERATION of Indian Chambers of Commerce and Industry (FICCI) has prepared a blueprint for exports with targets indicated for 1980-81. The FICCI is of the view that exports of this country should be increased but not beyond 25 per cent of domestic production. Undoubtedly, there are such industries as tea, coffee and jute manufactures which export about half of the total domestic production but if overall exports are limited to 25 per cent of industrial production, the economy will be in a better position to absorb external fluctuations.

Given below is the chapter entitled "Production and Investment for Exports" from this study along with some statistical data which have a bearing on the recommendations made by the FICCI:

Export effort can be sustained only if it is adequately supported by requisite domestic production. This aspect has not received necessary attention and as such either exports have not grown to their full potential or have been at the cost of domestic consumption.

It can be appreciated that in respect of luxury goods, for example, diversion of production to export markets, even by reducing domestic consumption would not be undesirable. But such diversion becomes difficult when domestic demand is strong and consequently fiscal and administrative measures have to be pressed into operation. For this reason, an expanded export effort has to be backed by appropriate increases in domestic output.

Agricultural Exports

It has been observed that, on the whole, about six per cent of agricultural output and nearly egiht per eent of industrial production is exported. The percentages, however, vary from product to product. Tea, coffee, jute, etc. are primarily export industries. Nearly a half of the production of these industries finds markets abroad. On the other hand, only about seven per cent of the production of engineering goods, two per cent of handloom cotton textiles, or 0.5 per cent of coal is exported.

For the main export commodities the ratio of exports to production is shown in Table I.

In a large number of industries the proportion of exports to production is small. Where it is high, as for example, 63.7 per cent in the case of iron ore, it reflects our lack of capacity to expand domestic production of manufactured product. Also there are industries suchas tea and jute which have a large export base.

High Surpluses

In recent months a number of industries have been overtaken by recession and capacity utilisation is not high enough, even for domestic market. Consequently, export surpluses have been considerable. Whether these have been actually used to promote exports is, however, a different matter. But obviously the situation cannot be expected to continue for long. Once the economy gets into swing, surpluses will disappear; therefore, unless production is expanded, export will become difficult.

There are two main considerations involved in planning future production, keeping the export needs in view:

— Export surplus should not be at the cost of domestic consumption or use.

— The percentage of production exported should not be very high, since export market fluctuates and as such creates disturbances in domestic industrial conditions.

Export has to be a built-in factor in production planning. Production should be enough to meet

TABLE I

Exports and Production in 1974-75

	Per cent of exports to production (1974-75)
Tea	45.6
Coffee	57.3
Tobacco (Unmanufactured)	17.0
Jute Manufactures	47.3
Sugar	14.9
Marine Products	2.0
Non-essential Oils	25.0
Coal & Coke	0.5
Iron Ore	63.7
Cement	2.0
Art Silk Fabrics	9.0
Cotton Textiles (Mill-made)	10.0
Cotton Textiles (Handloom & Powerloom)	2.0
Chemicals and Allied Products	20.6
Engineering Goods	6.9
Rubber Manufactures	5.3
Leather and Leather Products	4.2
Cashew Kernels	19.0
Spices	5.4
Rice	0.1
Coir and Coir Products	13.5

Notes: (i) Domestic supply of cashew kernels includes production and imports.

(ii) Spices cover only major spices.

domestic demand as well as export, the latter being determined on the basis of external market potentialities. In the short term a spill-over from one market to the other is inevitable. But even then production conditions must be flexible enough to correct such maladjustments quickly.

Seperate Identities

The separate market identities — domestic and foreign — do not imply dichotomy of production. For this reason, the production system itself must be commercially efficient. Cost and quality have to be competitive, judged by international standards. Export which needs to be subsidised because the production system is uneconomic does not have a good future. It creates distortion and inflicts a wholly unnecessary burden on society.

It also needs to be recognised that export market is not steady. Innovations, changes in tastes and fashions, political disturbances, international economic developments, currency variations, freight rates changes, crop failures, strikes etc, expose the export market to great fluctuations. Therefore any industry which depends overwhelmingly on exports is likely to be susceptible to occasional shocks. These can cause great harm to the economy, particularly if the export industry is a major one.

As a general guideline, export should not exceed 25 per cent of domestic production. Of course this guideline cannot be rigidly applied in all cases. As mentioned earlier, industries such as tea, coffee, jute etc. already export about a half of the total domestic output. But, by and large, if exports are limited to 25 per cent of industrial production, the economy will be in a better position to absorb external fluctuations.

The limitation of exports to 25 per cent of production can be brought about by:

— Greater diversification of exports.

— Larger production for domestic market if it can be sustained by adequate demand.

Diversification of exports will be achieved, in considerable measure, in the next five years. The accent on traditional exports like tea, jute, textiles, etc, in 1980-81 will be relatively less, compared to engineering goods and chemicals. But the process of diversification will take a much longer time to be completed.

Planning for Future

In planning production in the next five years, it is, therefore, necessary to produce comparatively more for the domestic market in areas in which exports are likely to expand relatively faster, subject to the nature of the commodity and availability or demand.

The export possibilities will demand that necessary production is undertaken so as to generate required export surpluses by 1980-81. Considering the gestation period of some of the complex industries, action will have to be initiated within a very short time.

Keeping in view the broad approaches mentioned earlier, and the additional domestic consumption consistent with the increase in income, the extra production that will have to be planned in respect of the major export items would be as given in Table II.

The increase in the exports of agricultural and agro-based products as also their production would be at a smaller rate than that of manufactures. But considering the additional export effort, the proportion of output exported will rise in respect of both these sectors. For example:

— the proportion of agricultural and agro-based exports to their production would step up from 6.31 per cent in 1974-75 to 8.17 per cent in 1980-81.

— the ratio of exports of manufacture to production would go up from 8 per cent in 1974-75 to 11.2 per cent in 198-81.

TABLE II

Increase in Production and Exports in 1980-81 over 1974-75

	Unit	Increase in exports (1980-81 over 1974-75)	Increase in production (1980-81 over 1974-75)
Tea	Th Tonnes	47	101
Coffee	,,	9	17
Tobacco (Unmanufactured)	,,	42	78
Jute Manufactures	,,	35	161
Sugar	M Tonnes	1	2
Marine Products	Lakh Tonnes	1	5
Non-essential Oils	M Tonnes	0.02	0.04
Coal and Coke	M Tonnes	1	76
Iron Ore	,,	23	31
Cement	,,	2	15
Art Silk Fabrics	M Metres	66	263
Cotton Textiles (Mill-made)	,,	57	657
Cotton Textiles (Handloom and Powerloom)	,,	82	701
Chemicals and Allied Products	Rs Cr	155	431
Engineering Goods	,,	752	4424
Rubber Manufactures	,,	37	182
Leather & Leather Products	,,	163	559
Cashew Kernels	Th Tonnes	20	20
Spices	M Kg	12	87
Rice	Th Tonnes	39	6070
Coir and Coir Products	,,	3	16

Notes: Figures are rounded to the nearest integer.

Agricultural production has traditionally shown low growth rates. It is not easily amendable to effort and as such increases in production cannot be planned on a large scale. This is true of a variety of products such as sugar, tea, oilcakes, cashew kernels, spices etc. But the increases in exports also are not likely to be such as to involve substantial diversion from domestic consumption.

Industrial production, on the other hand, is wholly responsive to investment. Since in industries such as engineering, chemicals etc, possibilities for large exports exist, expansion of output has to be undertaken as expeditiously as possible. For example, in engineering industry, output will have to be stepped up from about Rs 5000 crores to over Rs 9518 crores, in chemicals from Rs 280 crores to nearly Rs 820 crores, and so on. Unless these increases in output are planned sufficiently in advance, we shall not be able to undertake the possible exports in 1980-81.

High Potential

There are certain products like fruits, fish and meat which not only call for an increase in production but also accompanying services like refrigeration, scientific handling etc. These items have great potentiality and need to be given urgent attention.

It would be relevant to indicate, though broadly, the magnitude of investment that will have to be undertaken to generate production for export. This exercise can be done at two levels viz, aggregate and sectoral. The first would imply anticipating plan content itself which is beyond the scope of the study. What can be more usefully accomplished is the measure how much additional investment will have to be made to generate adequate surplus for exports of the magnitude outlined.

Overall Strategy

Even such an estimate will have to be somewhat limited in scope because there are a number of products, mainly agricultural, the output of which will depend on the overall development strategy rather than investment in the production of that specific commodity. Since such investment is not directly related to exports, it has been excluded from our estimate: so also investment in services like refrigeration, shipping etc.

On this basis, the investment that will be called for in various types of industries in public and private sectors, for producing the additional output for export would be Rs 1817 crores. The composition of this investment is given in Table III.

This investment is in addition to that required to generate production for domestic use. What is more, it will have to be undertaken as early as possible, preferably in the next three years, so that the requisite goods are available in 1980-81 without reducing domestic availabilities. In other words, investment will have to be stepped up by Rs 600 crores per year, over and above, what is required to sustain growth for domestic needs.

Level of Investment

The level of investment for additional exports will need to be matched by additional savings. Unless the country is in a position to make this extra savings effort it will not be possible to support an export programme of the magnitude envisaged.

Export growth is not a new feature. As mentioned earlier, in the past 5 years, a substantial increase in exports has taken place. The additional export production and the corresponding investment will have entailed additional savings. It is found that, on an average, an export of Re 1 will require an investment of Re 0.75 to generate the necessary production. On the basis of export growth in 1970-75 it can be estimated that Rs 160 crores of additional savings per year or 0.38 per cent of the GNP has been used for export purposes.

In the next 5 years, GNP can be expected to grow at an average annual rate of 5.5 per cent. If the export of the order envisaged is maintained, an additional Rs 600 crores will have to be earmarked to sustian production for exports.

TABLE III

India's Share in World Imports of India's Major Export Products in 1972

Commodity	% share
Tea	28.35
Leather & Leather Manufactures	12.81
Cotton Textiles	5.32
Tobacco Unmanufactured	4.23
Iron Ore	4.30
Floor Coverings	2.50
Gems & Jewellery	1.93
Sugar & Honey	1.84
9. Fish & Fish Preparations	1.61
Railway Vehicles	1.41
Bicylces	1.46
Steel Structurals	1.34
Fruits & Vegetables	1.35
Coffee	0.96
Clothing	0.67
Wire products	0.73
Tools	0.61
Electrics, Wires, Cables, Transformers	0.76
Iron & Steel Tubes & Pipes	0.63

Source: U.N. Yearbook of International Trade Statistics, 1974.

TABLE IV

Extra Investment Required for the Increment in Exports in 1980-81

	(Rs crores)
Engineering Goods	671
Chemicals	190
Iron Ore	460
Silk & Art Silk	26
Cement	170
Others	300
Total	1817

This would mean that in the next 5 years about 0.81 per cent of GNP will have to be saved to finance investment in export production industries. It appears that this increase in savings formation is not such as to beyond the nation's capacity. One would be certain that this goal would be achieved if fiscal policies are more actively geared to promote larger savings.

Export-linked Imports

Export production involves not only creation of additional production capacity but also availability of necessary inputs. For lack of data and time, this secondary element in production planning has not been considered. But it is quite likely that full availability of domestic inputs of the right specifications and in right quantities will not be possible. Fort his reason, import of some of the inputs will become necessary. In estimating import needs this aspect was kept in view. Such export-linked imports have to be liberally allowed to keep the production system going and support export promotion.

There is a time lag not only between investment and production but also between production and exports. This lag can be quite significant particularly in respect of new export commodities and new export markets. In the case of engineering goods, for example, which will have to be exported increasingly to developing countries the time lag will be quite pronounced. Hence export promotion measures will have to be undertaken right now to ensure that production which will come by 1980-81 will find ready markets abroad.

Thus the future export potentialities have to be carefully built up through investment and production effort in appropriate areas. at the same time, since production has to be efficient, measures will have to be initiated to put our production system on the same competitive basis as in other countries.

TABLE V

India's Exports as Percentage of Gross National Poduct 1966-67 to 1974-75

(Value in Rs crores)

Year	GNP	Exports	% of exports to GNP
1966-67	25198	1152.88	4.6
1967-68	29714	1192.82	4.0
1968-69	30560	1354.18	4.4
1969-70	33883	1408.70	4.2
1970-71	36730	1524.38	4.2
1971-72	38899	1603.15	4.1
1972-73	42136	1964.39	4.7
1973-74	52193	2518.34	4.8
1974-75*	63375	3298.62	5.2
1975-76**	65000	3863.00	6.0

Note: *Quick Estimates (CSO) **Estimated

TABLE VI

India in World Exports

Year	World Exports		India's Exports		India's share in world exports (in %)
	$ Million	%annual change	$ Million	$ %annual change	
1960	112,300	—	1,331	—	1.19
1961	117,400	4.54	1,387	4.21	1.18
1962	123,600	5.28	1,403	1.15	1.14
1963	136,000	10.03	1,626	15.89	1.20
1964	152,600	12.12	1,705	4.86	1.12
1965	165,400	8.39	1,687	1.06	1.02
1966	181,200	9.55	1,577	6.52	0.87
1967	191,100	5.46	1,612	2.22	0.84
1968	213,400	11.67	1,760	9.81	0.82
1969	245,800	14.71	1,835	4.26	0.75
1970	280,700	14.67	2,026	10.41	0.72
1971	316,600	12.79	2,034	0.39	0.64
1972	376.600	18.95	2,452	20.55	0.65
1973	524,600	39.30	2,917	18.96	0.56
1974	777,700	48.25	3,925	34.56	0.50
1975*	793,254	2.00	4,180	6.50	0.53

Note: *Estimated exports on the basis of two quarters of 1975.
Source: Date up to 1974 from International Financial Statistics, IMF (various issues)

eastern ECONOMIST

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Price Rupees Two

Non-aligned news pool

THE SIX-DAY conference of 60 third world countries held in the capital for promoting the establishment of a non-aligned news pool commenced as a *tamasha* with its usual quota of angry speeches and walk-outs but ended on a very happy note, thanks to the perseverance of Mr V.C. Shukla, union minister for Information and Broadcasting, who was the leader of the Indian delegation and the untiring efforts of Mr Mohammed Yunus, alternate leader of the Indian delegation at the conference. The constitution of the pool of news agencies of non-aligned countries adopted by the conference laid the foundations for the dissemination of correct and factual information about the happenings in the third world. This constitution will now be endorsed next month at the Colombo summit of the non-aligned countries. The coordination committee consisting of 14 member-countries elected India as the first chairman. In the very first meeting of this committee presided over by Mr Yunus, efforts were made to determine ways and means of keeping the members in touch with one another and to evolve a framework for operation.

The tone of the conference was set by the prime minister, Mrs Indira Gandhi, who equated self-reliance in sources of information with technological self-reliance. Explaining the meaning of "non-alignment", she said that it was not a negative concept since it was based on "trust, hope and willingness to cooperate", all of which were positive values. It would have been an admirable performance by the participants in the conference if they had taken a cue from Mrs Gandhi's speech and had dilated upon only the positive aspects of "decolonising" of sources of information instead of spending much valuable time in running down the western news agencies. Surely, these agencies set up by the former colonial powers had been unfair to the third world countries in publicising the less favourable aspects only. They hardly saw anything good happening in these countries and were always keen to project an image of poverty, destitution and filth. But the foundations of the new news pool should be based on positive aspects of cooperation among the non-aligned countries, not on their common hatred of someone. Every speaker at this conference made it a point to disparage the western information media as if this was the central objective of this conference. Why not stress the need for the non-aligned countries coming forward together to have a news pool because intrinsically it was a highly desirable objective? As Mrs Gandhi said, we in this country were familiar with minor authors and columnists of Europe and the USA while we knew precious little about the leading poets, novelists, historians and editors of countries in Asia, Africa and Latin America. So it was apparent that the coming together of non-aligned countries in New Delhi was sufficiently important for this reason alone.

The constitution of the news pool is designed to promote exchange of information between non-aligned countries both on bilateral and multilateral bases. Surely a good job has been done in so far as its drafting goes but it would be hard to predict as to how far it would survive under the buffets of the changing political scene in the world.

Let us not forget that many of the non-aligned countries are under varying shades of autocratic rule with limited freedom of expression. There are others like our country where the profession of journalism, despite recent chastening, is remarkably free. This diversity in itself can prove to be a stumbling block. Those who will be called upon to nurture this baby—born on the 13th (lucky for some!) of this month — will need all the ingenuity of a doting nurse to help it grow into manhood.

Rising costs and prices

THE DECISION of the government of India to raise the retention prices for cement, for offsetting increases in manufacturing cost, the recommendation of the Bureau of Industrial Costs and Prices for an increase in prices for levy sugar by an average of Rs 10 per quintal and the fresh demand for an increase in coal prices, which may not be looked into before March next year, clearly indicate that the rigidities in the cost structure and imported inflation are inhibiting a continuing downward trend in wholesale prices for all commodities. The producers of wheat, rice, cotton, sugarcane and raw jute have indeed been asking for increased floor and procurement prices. The demands of growers of cereals have been conceded indirectly by the administration of a bonus scheme while fair prices for jute are proposed to be assured with massive buffer stock operations by the Jute Corporation of India.

happy farmers

The cotton growers in Maharashtra are feeling happy because of the success attending the monopoly procurement scheme of the state government. The cane growers have been asking for higher minimum prices and actual higher payments which the sugar mills are finding difficult to concede because of erosion of profit margins and meagre adjustments in prices for levy sugar. The small rise in the index of wholesale prices for all commodities in the past three months also suggests that there cannot be a further significant decline in prices in the absence of substantial improvement in productivity and achievement of economies arising out of a big increase in production.

It should be said, however, that a commendable effort has been made to bring about a stabilisation of prices and eliminate wasteful use of raw materials and increases in costs due to loss of man-hours. The index of wholesale prices for all commodities is still six per cent below the level of July last year and the country has had the benefit of two years of negative inflation. While the anti-inflationary measures and checks on the operations of smugglers and black marketeers have played an important role in containing inflation, the most important factors in arresting a further rise in prices are the sharp increase in agricultural production and the improvement in the power situation leading to higher industrial output.

helpful factor

The regulation of growth in money supply has also been a helpful factor though it is arguable in the Indian context whether there can be such a direct relationship between changes in money supply and demands for goods and services. Actually, in the light of developments in the past two years it can even be said that the elimination of scarcities in essential commodities and the suppression of operations of black marketeers have been responsible to a greater extent than the smaller rise in money supply for achieving negative inflation. It was even contended in some quarters earlier this year that a downward trend in prices had been taking place even with a sharp increase in money supply. The recent signs of upward trend in prices cannot be taken to mean that inflationary pressures are asserting themselves forcefully though it has become clear that shortfalls in agricultnral production as in the case of raw cotton, or fears of a decline in the output of cash crops with inadequate rainfall can have upsetting effects on earlier calculations.

The position now, however, is vastly different from the situation noticed early in 1974 and the government can control any rise in prices by increasing imports of raw materials in short supply or effecting massive sales out of buffer stocks of foodgrains. The bulging foreign balances can be used for liberalising imports wherever necessary, especially as the government has been obliged to suspend imports of foodgrain because of unprecedented procurement purchases and a big rise in buffer stock.

rebates in excise

The union Finance ministry has also been making efforts to prevent an undue increase in end-prices for manufactured goods by granting rebates in excise duties in respect of excess production on a differential basis for old units, units commissioned between 1973 and 1976 and units commissioned after March 1976. A policy of differential prices is also being pursued in respect of cement and sugar, while producers of fertilisers have been representing to the government that the new entrants should be allowed higher prices and special concessions in order to offset increases in operating costs due to heavier depreciation and interest charges. The re-introduction of development rebate in the form of investment allowance and special facilities for new sugar factories are also aimed at cushioning the impact of higher capital costs on manufacturing operations.

These policies have certainly been helpful in utilising to a great extent the impact of higher capital cost and heavy interest charges. It will be necessary, however, to adopt a more realistic attitude and concede an increase in prices for meeting unavoidable escalations in costs and bringing into operation natural forces which will bring about self-sustained growth. This is not to say that there should not be any attempt to compel an improvement

in productivity or the achievement of economies in operations. But it has also been proved that even with fuller working and efforts to achieve higher productivity, profit margins have not been reasonably attractive and spinning mills and sugar mills have been suffering losses because of 'high' raw material prices, heavy excise duties, controls over prices and production and higher interest charges

a test case

The sugar industry probably provides a test case for the government. The price for levy sugar at the retail end has been pegged at Rs 2.15 per kg throughout the country since the end of 1972 even in the face of rising costs. The Tariff Commission's formula for adjustment in prices of levy sugar has not been faithfully followed and the Bhargava Commission's formula for according higher prices for cane growers has also had a complicating effect. In the earlier stages payment of statutory minimum prices for cane was first made and additional prices were granted later to growers in the light of profits realised on the disposal of free sale sugar. Subsequently, the introduction of the Bhargava Commission formula calling for equal sharing of profits realised on free sale sugar brought out forcefully the anomalies arising out of unrealistic fixation of levy sugar prices. The larger share of profits accruing to cane growers as a result of depressed levy sugar prices had a debilitating effect on sugar mills.

The government also was anxious to avoid an undue rise in levy sugar prices as it would necessitate an increase in the pooled retail price for sugar. In this process the new approach adopted in July last year imposed serious disabilities on the efficient sugar producing areas of Maharashtra, Andhra Pradesh, Karnataka and Tamil Nadu and the government is in a quandary about what should be done to prevent an increase in the retail price of sugar and at the same time provide the necessary incentives for sugar mills for maximising production.

The Bureau of Industrial Costs and Prices is reported to have recognised the force of the sugar industriy's argument for conceding a liberal increase in price for levy sugar and even a larger quota of free sale sugar. But any significant increase in the average of levy sugar price will have to be reflected in a higher retail price apart from an increase in the resale quota, which can be contemplated only if it is sure that the output in the next season will be five million tonnes. The actual production in 1975-76 season may not be more than 4.25 million tonnes and with exports likely to be of the order of 1.3 million tonnes and internal consumption around 3.6 million tonnes, the carry-over at the end of the season will be only 571,000 tonnes. But for the carry-over of 1.22 million tonnes from the 1974-75 season the export efforts of recent months would not have been possible.

The carry-over into the next season cannot, however, be utilised in any way except for operational purposes. This will mean that exports of 1.5 million tonnes and the internal consumption of 3.6 million tonnes can be sustained only when the output is raised to 5.1 million tonnes. Though this will call for an increase in production by 854,000 tonnes in 1976-77 as compared with the current season, there will be an increase of only 306,000 tonnes over the record production of 1974-75. The industry is capable of achieving this output and more.

What is needed is reasonable increase in levy sugar prices, the grant of attractive rebates in excise duty for excess production in early and late parts of the crushing season and a share of the profits on exports. With the likelihood of a reduction in beet sugar output on account of drought in Europe, the demand for cane-sugar is bound to be sustained in world markets and the value of sugar exports can be easily Rs 500 crores in 1977-78 yielding a profit of at least Rs 120 crores between the government and the industry. If the

Eastern Economist 30 Years Ago

JULY 19, 1946

Is the post-war world heading for an inflation to be followed by a slump such as was experienced after World War I? In almost every country inflation is the topic of the day. Events have taken the most dramatic turn in the U.S.A. The long drawn price control controversy has culminated in the Congress passing the O.P.A. bill in so amended a form that President Truman has regarded it totally inadequate and used his veto. He has appealed to the people and Congress to pass a workable O.P.A. bill to protect the nation from "the great pressures upon us leading to a disastrous inflation" and "the spiral of wages chasing prices". Imminent increases in many prices on a substantial scale are anticipated and materializing and there is a reported run on U.S. economy. In Britain, too, the risk of inflation has been seriously apprehended. Lord Cherwell declared in the House of Lords, "Never in our history has the danger from inflation loomed larger". And indicates of prices and costs are rising in a rather disquieting manner. On the continent of Europe, varying degrees of inflation and types of monetary chaos are prevailing. In Hungary the situation is comparable to the German hyper-inflation after the last war; in Greece fantastic price rises and hopeless depreciation of the exchange are almost daily in evidence. In the rest of Europe, monetary measures such as freezing of deposits, withdrawal of inflationary war currency and other controls have succeeding in removing from circulation multiple currencies and in establishing some kind of monetary order; in this the present is an enormous improvement over the experience after the last war. But serious monetary disturbances are recurrent and the foreign exchanges are all weak. If global inflation is coming, how will India be affected?

problems of the sugar industry can be successfully solved, satisfactory answers will be found for problems concerning other industries. A pragmatic approach is therefore needed when tackling price policies and an unrealistic anti-inflationary approach can even be counter-productive.

TDA takes on new challenges

THE NEW orientation being given to the activities of the Trade Development Authority (TDA) is not unjustified. It was established about six years ago to foster primarily the exports of the small and medium scale units of our industrial economy. Having achieved a good measure of success in this basic objective, it was natural that this public sector undertaking, which was not to be a trading organisation but a service institution, should have taken up new responsibilities for building up infrastructure for external trade.

Although additional responsibilities came to be taken up by the TDA a couple of years ago when it set up an information cell and a research and analysis division, major strides were taken in this regard during the last financial year when both the information cell and the research and analysis division were strengthened a great deal. The TDA has now become the focal point of a wide variety of information required by our manufacturers about the export possibilities of their products and by importers abroad about our export potential.

wrong assumption

It will, however, be wrong to assume that nothing further remains to be done in this field. Although the documentation centre of the TDA is now fairly well equipped and has established contacts with a number of trading institutions and business promotion organisations in many foreign countries as well as within the country, it still has to go a long way if it is to cater for the requirements of the exporting community fully. It, of course, is encouraging to note that the TDA as well as the government is not complacent about this. The TDA is stated to have been selected recently to carry out preparatory work for formulating a concept of national centre for trade information.

export promotion

The research and analysis division of the TDA too has started contributing a good deal to the export promotion effort. Through short-term forecasting of export trends — an activity taken up a couple of years back — under which commodity-wise forecasts are worked out regularly every quarter for 27 commodity groups accounting for 90 per cent of our exports, an early warning system has been developed to enable the government to take necessary policy steps, whenever needed. These forecasts are stated to have been found very useful by the policy-makers in the government.

The other activities of this division include (i) inter-firm comparison studies, (ii) analysis of the generalised scheme of preferences, (iii) select studies for project planning, (iv) undertaking of special research projects, (iv) overseas market research specially dealing with the various parameters affecting our exports, and (vi) studies under the commercial development programme. Through inter-firm comparisons, the TDA is able to assess for its clients the comparative performance of different units within an industry for the purpose of ranking firms according to their efficiency and for motivating managements to improve their efficiency and the comparative position of their products in the international markets. Through an analysis of the generalised scheme of preferences, the TDA keeps track of country's exports to various distinations.

Very significantly, it has been found that although exports of some engineering goods went up under GSP during the first half of 1975, compared to the corresponding period a year earlier, the total exports under this scheme have not yet come up to expectations. There was even a significant decline in the exports of several non-engineering items under GSP during January-June, 1975. These included such products as textiles, jute goods, chemicals, coir and coir products and tobacco. Along with such engineering goods as diesel engines and components, hand and small tools, electrical goods and components and electronic products, machine tools and accessories and iron and steel castings and forgings, the exports of such non-engineering items as leather and leather goods, handicrafts, food products and marine products, of course, showed an uptrend during the first six months of 1975.

useful results

Destination-wise, while exports under the EEC GSP have generally done well, the Japanese GSP had not been helpful till lately not only for our country but also for the developing countries in general as neither we nor the developing countries taken together were able to maintain percentage-wise their share in the total imports of Japan over the period 1970 to 1973. It, of course, has been established that higher tariff concessions are associated with large volume of exports under GSP. This association has strengthened over the period. The various other research projects undertaken by the TDA, similarly, have yielded useful results.

In its basic objective of fostering the

exports of the small and medium-scale industrial units, the TDA has achieved further commendable progress during 1975-76 through designing and adopting new methods of export promotion, the most important among them being the arranging of buyers-sellers meets in New York and Dallas in the United States. A similar meet was arranged earlier in 1974-75 in the United Kingdom. The results achieved are stated to have been very wholesome. The New York and Dallas meets yielded on the spot export orders worth Rs 11 crores, besides inquiries later on worth nearly Rs 3.5 crores. These meets have opened new vistas for our exports.

technical assistance

The scheme of the TDA to provide technical assistance to manufacturer-exporters too has yielded significant dividends. Product adaptation has progressed well under this scheme. Several experts from the countries to which exports of particular products are attempted to be multiplied tender advice to manufacturer-exporters under the programme. The TDA also assists in securing through its own foreign exchange funds product samples from abroad as well as tools and testing instruments for their benefit. The industries covered by this programme in 1975-76 iucluded the manufacture of bicycles and components, tentalum capacitors, metal-firm resistors, knitwear, sports goods and automotive ancillaries.

In the case of exports of automotive ancillaries, the TDA achieved a near breakthrough by participating for the first time in the specialised international automobile fair in Frankfurt. This participation not only helped in removving to a great extent the widespread ignorance and misgivings about our capabilities but also enabled the TDA clients to book business on the spot to the extent of Rs 11.71 lakhs for motor mountings, GRP helmets, brake drums, besides 250 serious inquiries about other products. Through TDA's efforts, one of its clients has also secured orders from a leading West German automobile manufacturer for the supply of specialised automotive fasteners to be fitted in vehicles as original equipment. This opens up good opportunities for the export of automotive components to sophisticated foreign markets.

a breakthrough

Through participation in the international electronics conference and exposition in Toronto, the TDA was able to stimulate last year tremendous interest among the Canadian and American buyers in our electronic products. Export orders worth Rs 28 lakhs were secured through this participation, besides inquiries for exports worth another Rs 3 crores. Considering the smallness of our exports of electronic items at present, these orders and inquiries are quite encouraging. The TDA also inculcated good interest among the west European importers for such of our items as ready-made garments, T-shirts, home furnishings, carpets, EPNS and brassware, imitation jewellery, etc.

In continuation of its long-term strategy of building up export potential, the TDA sponsored last year another 12 cases of creation/expansion of capacity for export. The total imports of capital goods under this programme would be about Rs 3.85 crores against an estimated export of Rs 63.4 crores over a period of five years. The important new projects to be set up under this programme include a unit for producing educational and mechanical toys in collaboration with one of the largest firms in the USA, a scheme for the manufacture of precision self-tapping screws in collaboration with a leading manufacturer of West Germany, a factory by technocrats for the production of tuning/recording/battery level indicators and a unit for the manufacture of special types of tapping screws by a group of India engineers settled in the USA.

capacity for export

The expansion of an existing plant manufacturing builder's hardware is another important scheme initiated under the programme of export production capacity build-up. In the previous years, the TDA had initiated the creation of substantial export capacities in such diverse fields as electronic sub-assemblies, plain/metallised plastic film capacitors, alloy steel

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Manager

castings and forgings, semiconductor devices, silver mica capacitors, cotton knitwear, high tensile fasteners, TV picture tubes, cathode ray tubes, bicycles and their components, luxury yachts, etc. Substantial export-oriented capacity has been set up in these lines.

Significantly enough, the TDA has proposed to pay concerted attention to the growing markets of Africa and West Asia also and not restrict its promotional efforts to the developed countries only. It intends to tap the African and west Asian market in a big way this year. The dynamism shown by the TDA in adapting its activities to the changing world situation and requirements as well as in strengthening the infrastructure for trade should yield very wholesome results in the coming years.

Logistics of location

REGIONAL AGITATIONS for getting high investment projects located within a certain state or area have been a normal feature of life in this country. The central idea behind these agitations has been that investment results in increase in income and employment and the location of an investment project is of considerable significance for the development of a region. Not long ago there were demands for the location of steel plants from several states. In order to study the relationship between investment and income (as well as employment generation) in an area, the Statistics Division of the Hindustan Steel Limited, Ranchi, decided at the instance of the late Mohan Kumar Manglam to undertake a case study of the Rourkela Steel Plant which has the distinction of being the first of the three public sector steel plants to be set up in this country. It is also the only steel plant at present which has a large fertiliser complex. The study was made by the Anugrah Narain Sinha Institute of Social Studies, Patna. The Institute was commissioned by the Statistics Division of HSL to find out whether or how much the local population had benefited by being in the vicinity of this investment project.

Another reason for choosing the Rourkela steel plant for study was that it was uninfluenced by other industrial projects. Whatever changes occurred in the social and economic life of the people around it could be attributed solely to the steel and fertilizer complex. In sharp contrast to it, the impact of the Bhilai steel plant in its vicinity could not perhaps be as accurately established because of the influence of neighbourhood industries.

The area under study was the Panposh tehsil whose "population of 211,000 accounts for 37.2 per cent of the total population of Sundergarh district." The population of Sundergarh district itself exceeds a million.

interesting conclusions

The conclusions reached by the study team were interesting though by no means spectacular or surprising. The per capita annual income of Panposh tehsil came to about Rs 865 but the lion's share of it went to senior employees of the plant and traders and businessmen. Communications, trade and construction activities developed but mining and agriculture prospered only marginally. The study revealed that the poor peasant whose labour is pledged to his master cannot look forward to liberation from his traditional pattern of consumption loans and indebtedness. As regards educational or cultural benefits, the study team said: "We find a huge distinction between the realisation and the possibilities". The poorest had certainly not benefited but well-to-do households had. Well, it was after all the well-to-do who organised agitations for the location of industries in their own areas.

The team has on more than one occasion opined that such agitations are political and they succeed in influencing other policies. Whatever marginal improvement agiculture may have gained in the area under study is "due to the promotional activities of the state government rather than on account of market forces generated by the location of the steel plant." The moral is clear. The thesis that the location of a big project automatically results in raising the standard of living of all the population in the area was not proved.

The report also draws attention to certain points outside its own ambit. Work regarding the study started in 1972 but could be completed only recently because "the statewise employment dispersal figures pertaining to Rourkela steel plant were not supplied by the HSL contrary to their promise." So the study team had to stop waiting and proceeded on its own. The HSL chairman rightly hopes that the report will be "of great help to the economists, planners, administrators and industrialists who are concerned with our national programme for the continued expansion of steel capacity in the country.

Of course, we can't put a satellite in orbit, but can't we hijack one ?

Capital's Corridors

R. C. Ummat

Restructuring of oil industry • Import of computer systems • Sugar capacity expansion • BHC granulation

A HIGH-LEVEL meeting of the officials of the union ministry of Petroleum and Chemicals and the representatives of oil companies operating in the country is being held here in a few days to consider restructuring of the oil industry. Draft proposals which have been prepared by the ministry in this regard are stated to have been circulated already to the interests concerned so that they can offer their considered opinion on the subject at the forthcoming meeting.

The draft proposals envisage primarily the reorganisation of the marketing operations of the industry on a regional basis. The refinery operations, it is felt, may not be disturbed for the time being. They are just proposed to be linked to the four regional companies which will be looking after the marketing operations.

eight companies

At present, there are eight oil companies operating in the country—the Indian Oil Corporation (IOC). Bharat Refineries Ltd (BRL), Hindustan Petroleum Corporation (HPC), Caltex, Assam Oil Company (AOC), Madras Refineries Ltd (MRL), Cochin Refineries Ltd. (CRL) and Indo-Burma Petroleum (IBP). There is also the Indian Oil Blending Ltd (IOBL), a subsidiary of IOC, engaged in blending lube oils and manufacture of greases. The IOC, BRL, HPC, Caltex and AOC are integrated refining and marketing companies. The MRL and CRL are purely refining companies; the marketing of their products is done by IOC. The IBP is a marketing company which receives products for sale from IOC.

draft proposals

According to the draft proposals, the country is to be divided for the purpose of marketing of oil products into four regions—north, south, east and west. The northern region will comprise Punjab, Haryana, Jammu and Kashmir, Himachal Pradesh, Delhi, Chandigarh, and Uttar Pradesh. The eastern region will consist of the north-eastern states, West Bengal, Orissa and Andhra Pradesh. The western region will include Gujarat, Rajasthan, Madhya Pradesh and Bihar. The states of Maharashtra, Karnataka, Kerala and Tamil Nadu will form the southern region. Four regional companies are envisaged to be set up to cater for the requirements of petroleum products of the regions concerned. They will more or less have equal share of the national market—each would be catering for the requirements of a population ranging from 123 million to 150 million people.

Broadly, IOC is envisaged to be the noddle organisation which may serve the northern region as a new company. The present HPC may be the nucleus of the company to be formed to serve the southern region and BRL the unit catering for the requirements of the western region. An entirely new company is proposed to be established, after the take-over of Caltex and AOC, to serve the eastern region. The four regional companies are envisaged to be integrated refining and marketing units. The AOC, after its take-over by the government, may be made a separate refining company to be called Assam Refineries Ltd.

Thus, whereas there are at present five integrated marketing and refining companies operating in the country, after the reorganisation there will be only four such units, with AOC, MRL and CRL, which have foreign equity participation, remaining as refining companies. The lube blending activities of IOC as well as of the other refining companies are proposed to be brought under the control of one management— the Indian Lube Blending Ltd. The greases and container manufacturing units of Balmer Lawrie may also be merged with Indian Lube Blending Ltd.

The above restructuring programme does not cover the petrochemicals industry. At present, there is a separate public sector unit looking after these operations and another company engaged in the setting up the refinery-cum-petrochemicals complex at Bongaigaon, in Assam. This arrangement is envisaged to be kept up.

effective coordination

For effective coordination among the four integrated refining and marketing regional companies, it is proposed that an apex body may be set up. This body may include the chairmen of the four proposed regional companies as well as a representative of the union ministry of Petroleum.

In restructuring the oil industry, the primary aim of the ministry of Petroleum is to achieve maximum utilisation of the existing facilities of all oil companies and optimisation of their economics of scale. The ministry does not feel that the interests of consumers would suffer due to lack of competition among the four regional companies. It thinks that when prices of products are fixed, there cannot by any real competition between two or more public sector undertakings.

On the other hand, it is expected that when there is only one company in the field in a particular region, it would be able to safeguard the interests of consumers through intensive supervision of distribution operations and more effective utilisation of installations and staff.

The refineries and the pipelines division and the research and development centre of IOC are envisaged to be kept under the regional company catering for requirements of the northern region.

* *

The Electronics Commission has revised, with immediate effect, the policy regarding import of computer systems by Indian nationals returning from/residing abroad. Hitherto, with a view to building up quickly computer software in the country and creating employment potential for the highly qualified Indian engineers and scientists, the Commission has been allowing even imports of second-hand computer systems purchased out of the foreign exchange earnings of the Indians residing abroad or returning to the country. The change in the policy has been necessitated as it has been found that practically all computer systems sought to be brought into the country by the Indian nationals returning from/residing abroad are obsolete in design and highly limited in application. They have also been proposed to be used for applications of routine data processing nature, largely from the viewpoint of earning high profits rather than of making any contribution to the development of industry within the country,

Henceforward, the import of computer systems by Indian nationals returning from/residing abroad will be governed by the following policy:

(a) Only new computers will be permitted to be imported; second-hand/used/reconditioned computers will not be allowed.

(b) The computer systems thus imported will not be used for setting up service bureaus in the country; they would be used either for specialised applications within the country or for overseas customers in such areas as engineering design, engineering consultancy, process control, data preparation/system conversion jobs and software development/generation on a 100 per cent export basis.

(c) The systems will need to be bought outright by the returning Indian(s) and installed and maintained on the basis of arrangements made by the returning Indian(s) which are approved by the department of Electronics.

(d) The total foreign exchange requirements for the import of the computers as well as for subsequent maintenance would be met out of the foreign exchange earnings of the individual(s) returning from abroad or identified associates of his/them residing abroad and no request for release of foreign exchange for imports of spares or any other accessories for the systems shall be entertained.

* *

Apparently not satisfied with the progress of implementation of the licences issued for augmenting the sugar manufacturing capacity through substantial expansions of the existing units and also taking into consideration the difficulties being experienced by these units in financing wholly their projects from internal resources and borrowings from commercial benks, the government of India has decided to allow all such units the facility of term-loan assistance from the central financial institutions, However, to ensure that the draft on the central financing institutions is kept to the minimum, the existing sugar factories availing themselves of the term-loan facility from these institutions for effecting substantial expansions can do so only if their equity-debt ratio after expansion does not exceed 1:1.

Several licences for substantial expansions of the existing sugar manufacturing companies came to be issued in December, 1974, on a selective basis, even though licences for raising the capacity to the 1978-79 targetted level of 70 lakhs tonnes had been issued, on the consideration that these licences may not yield the desired 60 lakh tonnes actually installed capacity by the end of the above year.

All the sugar factories having licences for effecting substantial expansions carrying the restrictive condition that they should not approach the central financing institutions for term-loan assistance, have been asked to get this condition suitably modified from the secretariat for industrial approvals of the ministry of Industrial Development.

* *

The government of India has approved the setting up of a BHC granulation formulation plant by Hindustan Insecticides Ltd. To be located at Udyogmandal, in Kerala, the project will involve an outlay of Rs 6.21 crores, including approximately Rs 15.4 lakhs expenditure in foreign exchange. Its capacity will be 6,600 tonnes BHC granules per annum. Though envisaged primarily for making BHC granules, it will be a versatile unit capable of producing granules of other pesticides also.

BHC granules are particularly useful for stem borers for paddy. Its application is easy, effective, long lasting and yet safe.

The project is a significant milestone in HIL's operations as it heralds its entry into the agricultural marketing field in a big way. It is for the first time that manufacture of granules in the country is being taken up on large scale.

With the approval of the above project, all the new expansion projects of HIL—1,800 tonnes malathion plant, 5,000 tonnes DDT plant, 1,600 tonnes endosulfan plant and the 6,600 tonnes BHC granulation plant—included in the fifth Plan have received government's sanction.

POINT OF VIEW

Balance-sheet of decision making

Dr Girish K. Srivastava

Dr. Girish K. Srivastava is a lecturer in the Department of Accountancy and Business Statistics, University of Rajasthan, Jaipur. In this article, he has shown how the balance-sheet can be used for forecasting short-run needs of finance when sales improve.

FINANCE AND financial decisions are important for a business enterprise. For want of funds no business can be established and run smoothly. Therefore, raising of adequate and timely funds needs to be tackled keeping in view the long term perspective. Funds may be raised either through equity or through long-term or short-term loans or through all of them together. Equity is useful in the beginning, long-term finance for expansion. For other needs, short-term finance may be raised.

This article attempts to examine the considerations which the management of a firm should regard as important for making financial decisions on the basis of its balance sheet for meeting regular needs of the business or for purposes of expansion.

basic consideration

A firm needs some assets in order to carry on its activities and if its activities are to be expanded, it must have more of assets. This is the basic consideration with which financial planning starts. As a firm grows, it requires new investments—immediate investment in current assets, and as full capacity is reached, investment in fixed assets as well. Since a growing, profitable firm is likely to require more cash for investments in receivables, inventories and fixed assets, it will naturally have a cash-flow problem. The nature of this problem, as well as the cause and effect relationship between assets and sales, has been shown in the diagram below.

As shown in the diagram, the increased volume of sales leads to the need for additional finance. Increase in the financial requirements in response to an increase in sales can be illustrated with the help of Table I.

We would take the percentage increase of each of the items for the years 1965-70 and 1970-75 for comparison. Percentage increase in 1970 has been calculated on the basis of 1965 and that for 1975 on the basis of 1970. Table II shows these percentages.

Table II shows that sales have increased during 1970 as compared to 1965 by 180 per cent, current assets by 200 per cent, and net fixed assets by only 167 per cent. The increase in sales to the tune of Rs 18 million gave rise to the need for finance by Rs 6 million in the form of current assets and Rs 3.5 million in the form of net fixed assets. Thus current assets rose by about 33 per cent of the increase in sales and net fixed assets by somewhat

Diagram showing the Cash-Flow Cycle

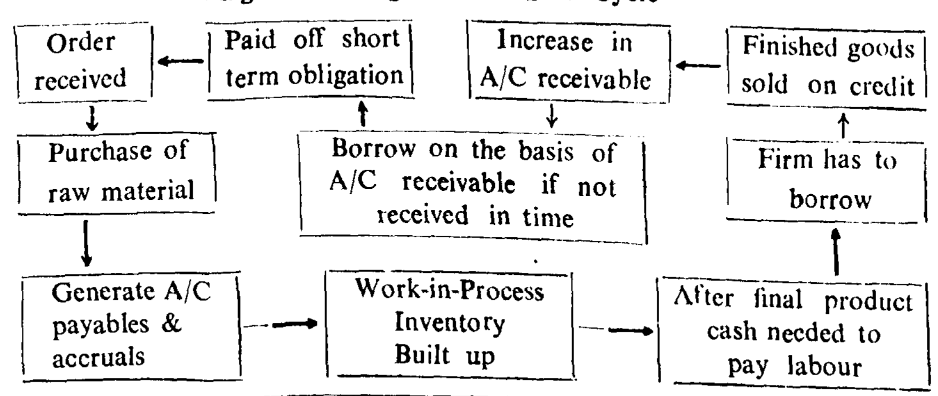


TABLE I

Sales, Assets and Liabilities During 1965-75 in X Company Ltd

(Rs in million)

Year	Sales	Current Assets	Net Fixed Assets	Current Liabilities	Long term Debts	Shareholder Equity
1965	10	3	1.5	1.5	1.0	3.0
1970	28	9	4.0	4.0	6.0	6.5
1975	42	15	6.0	7.2	7.0	11.0

Note: Only significant items have been taken from the balance-sheet.

over 19 per cent. Stated differently, for every Rs 10 million increase in sales the company has to finance an additional Rs 3.3 million in current assets and Rs 1.9 million in net fixed assets.

During 1975 the percentage figures are smaller than in 1970. The reason is that the rate of growth has slowed down during the latter period as compared to the earlier period where the rate of growth was very high. Here we again note the same phenomenon as seen earlier in regard to increase in sales requiring more financing. In fact, there is close correspondence between the percentage increase in sales and percentage increase in financial requirements.

important variable

We may infer from the above example that the most important variable which influences a firm's financial requirement is its projected sale. Therefore, a sales forecast is the foundation for taking future financial decisions. The same fact can also be expressed in terms of the percentage of sale invested in each individual item of the balance sheet. To illustrate this point, an imaginary balance sheet of a firm has been taken. During 1975 the sale of this firm was Rs 400,000 and profit margin after taxes was five per cent and it earned Rs 25,000 after taxes and distributed 50 per cent profit. Now the point is: what additional funds are required if sales expand to Rs 5,00,000 during 1976. This is explained by the model balance sheet given in Table III alongside with relevant calculations.

First, we should isolate those individual items which are expected to vary directly with sales because large volume of sales needs more cash or transactions, more receivables, higher level of stock and additional plant capacity. On the liability side also accounts payable and accruals may be expected to increase with increase in sales. Retained earnings depend on the profitability of the firm and profit distribution policy of the firm. The item of capital and mortgage loan will not increase spontaneously with an increase in sales. So we did not calculate the percentages of these three items in Table IV.

Thus it is clear from Table VI that for every 100 per cent increase in sales, assets must be financed by 75.05 per cent as they increase by this percentage while accounts payable and accruals contribute 15 per cent towards assets and leave 65.65 per cent assets for additional funds. The funds may be collected through internal or external sources.

If we want to expand our sales from Rs 4,00,000 to Rs 5,00,000 (by Rs 1,00,000) during 1976, 65.05 per cent additional funds would be required for this expected increase of sales, i.e., Rs 65,050. During 1976, the firm earns profit after taxes at Rs 31,250 and decides to distribute 50 per cent of it to partners and retains Rs 15,625 in the firm which can be used for its financial need. If it uses the amount for this purpose the balance (Rs 65,050—Rs 15,625) i.e. Rs 49,425 is still required which can be obtained by external sources. If in a particular year retained earnings are more than the firm's financial requirements and it wants to use retained earning, in that

TABLE II

Percentage Increase in Sales, Assets & Liabilities During 1970 and 1975 by taking 1965 and 1970 as Base

Years	Sales	Current Assets	Net fixed Assets	Current Liabilities	Long term Liabilities	Shareholder Equity
1970	180	200	167	180	500	117
1975	50	67	50	71	17	69

TABLE III

Balance Sheet as at 31st December, 1975 (Model)

Liabilities	Rs	Assets	Rs
Accounts payable	40,000	Cash in hand	10,000
Accrued taxes & wages	20,000	Stock	80,000
Retained earning	80,000	Receivables	75,000
Mortgage loan	60,000	Fixed assets 1,50,000	
		Less depreciation 15,000	1,35,000
Capital			
X 50,000			
Y 50,000	1,00,000		
	3,00,000		3,00,000

case, the firm does not require outside funds. This depends on the financial policy of the firm as to how it meets the need for funds.

The use of balance sheet for making financial decisions assumes that some of its items vary with sales but the ratios of these items to sales remain constant. The decision-maker computes past relationship between assets and liability items and sales, assumes that the same relationship will continue and then applies the new sales forecast to get an estimate of the financial requirements. This method is useful only for relatively short-run financial decisions. In the long-term decisions, balance sheet items and sales relationship may not be useful. This technique suggests financing of growth from external sources without straining the internal sources.

TABLE IV

Composition of Balance Sheet Expressed as a per cent of sales

Liability		Assets	
Accounts payable	10.00	Cash	2.50
Accrued taxes & wages	5.00	Stock	20,00
		Receivables	18.75
		Fixed assets (Net)	33.75
	15.00		—75.05

Statement showing the per cent of each additional rupee of sales that must be financed	
Assets as per cent of sales	75.05
Less—Liabilities as per cent of sales	15.00
	60.05

Sad plight of construction equipment

M. L. Jain

The heavy equipment lying idle at construction projects gives a sad but true picture of apathy towards this valuable asset. No one seems to be concerned with this loss to the nation, says the author.

IN A country of the size of India, there are always specialised jobs of gigantic nature such as dams, canals, drainage systems, power houses, aircraft runways, hangers' overhead flyover and other specialised bridges and underground railways. There are also such jobs as habours, ports, shipyards and docks, gigantic factories and mills, multistoreyed buildings or national highways. In addition, there are specialised and secret projects of Defence, atomic energy or expansion programmes which need to be executed without hampering existing production facilities. Specialised works are also the outcome of a combination of expertise and scientific approach on structures, architecture, utility, life span and speed in the construction of huge public works.

Besides the factors of specialisation and enormous size, the time factor is also very important. The developmental projects should start giving returns and benefits as quickly as possible. This objective can be achieved only by the maximum use of mechanisation. The quicker a project is completed the lesser is the cost to the nation. The benefits and returns flow quicker and in many cases help other projects in accelerating their speed. This is how developed countries accelerated the speed of their development. There is no escape from heavy mechanisation of construction of developmental works.

All the specialised projects require specialised construction equipment not only to expedite construction and thus reduce cost thereof and quicken the outflow of benefits but also to ensure development of necessary technological competence and manpower. On the other hand hardly any specialised construction equipment is manufactured in India except a few standarised dumpers, earth movers, road rollers and cranes. Most of the construction equipment of highly specalised and gigantic nature has to be imported either readymade or made to order. In either case there is heavy drain on valuable foreign exchange and we are dependent on outsiders for the supply of spare parts. Technological development is taking place abroad at the cost of our country.

There is no coordination between users and manufacturers of construction equipment in the country. There is no research and development agency in this regard. Nor are there any efforts to develop national technological competence and standardisation in spite of the enormous demand in the country.

There are many instances where transfer of such equipment from one owner to another or one department to another keeps on hanging for long due to disputes about its valuation and in the meantime the equipment remains idle leading to deterioration of equipment and loss of competent manpower. Thus the shortage of equipment and manpower is mostly man-made.

The heavy construction equipment lying idle at each project gives a sad but true picture of apathy towards such useful and valuable equipment. Apathy and carelessness has developed during the passage of time due to notorious shortage of spare parts and difficulties in getting import licences. This position has been accepted just lying down.

Due to the absence of a national policy, objectives and organisation idle construction equipment at the projects is really alarming. No one seems to be concerned with the huge loss to the nation. In some cases equipment is lying idle just because specialised imported grease and lubricants are not available. One cannot imagine a more depressing picture.

uncertain fate

The negligence shown to the equipment is also due to the fact that the fate of the equipment is uncertain after the project for which it was procured is completed. This applies both to a contractor and a department of the government. No attention is paid towards long-term utility of such heavy and costly equipment. Apparently the situation gives a picture of shortages and scarcity, while actually it is carelessness and general apathy in the conerned quarters.

Presently the construction equipment is mostly used by contractors, except for certain departmental jobs in the Defence services or the like, where secrecy is of utmost importance. Obviously, the contractors have to shift the heavy construction equipment from project to project. This is a very costly and time consuming process. The whole thing has to be dismantled into convenient pieces, special trailors and/or wagons are required, a squad has to move along with the equipment and then the whole thing has to be re-erected. The costs and time involved can be well imagined. The losses of spare parts and breakdowns in the whole process are enormous. There are cases where contractors have abandoned construction equipment under the plea that it is unservicable and unworthy of re-use. Even its disposal becomes a problem with the project authorities. There are no specialised agencies for taking up overhauling jobs. Foreign manufacturers obviously discourage the ideas of overhauling. There are not even specialised junk dealers for such equipment.

a sad story

The manpower deployed on heavy construction equipment is another sad story. There is no proper training arrangement either by the users or by the manufacturers. Sometimes operators and mechanics are idle and on other times dictate terms. In both cases there is no guarantee of properly trained man being available or posted in the right position. This situation is mostly responsible for heavy breakdowns and fatal accidents. Due to positioning of ill-trained persons there are mishaps and the jobs thus acquire allegedly "hazardous work" stigma.

If properly done, there is nothing like a hazardous job. Heavy construction equipmet in many projects remains idle on the ground also that the operator and or mechanic is on leave or is scheduled to arrive by such and such date. No contractor can afford to have a pool or leave reserves for such specialised and rare requirements. Unfortunately, the contractors are the only class in the country who have so far not organised themselves as a group by forming a chamber or an association and therefore their resources and competence remain scattered and not fully exploited. The situation is exploited by unscrupulous men at the cost of the country.

From the above it is obvious that there is an urgent need for a national policy on construction equipment and an immediate reorganisation of this vital but neglected sector is essential.

public enterprise

Since most development works are undertaken by the government, it is urgent that a public sector enterprise should lead the country by organising the most efficient exploitation of the country's resources in this regard. The public sector enterprise can own, hire (in and out), maintain, repair, overhaul, and thus ensure uninterrupted availability of construction equipment. It can fix priorities taking national interests into consideration and thus eliminate idle machines and men. The enterprise can organise manpower training centres both for operation and maintenance. It can also establish a Research and Development centre.

Workshops can be established to develop indigenous competence for the manufacture, first of spare parts, then components and ultimately complete equipment. This enterprise can also reclaim and salvage old equipment for re-use. It can introduce standardisation, locate nearby places for transfer of equipment and men and organise squads for emergencies. This public sector corporation can also collect historical data, analyse it and after correcting the same to be as near to reality as possible, set out and fix future trends, demands, sources of supply and priorities. In collaboration with users and manufacturers it can launch programmes of import substitution and self-reliance in a phased manner. There is no limit to services it can render to the neglected and starved sector of construction equipment, and thus not only conserve scarce foreign exchange but also ensure most effective deployment of it in the country.

WINDOW ON THE WORLD

Economic forecasting

1974 and 1975 found the public awash in a flood of economic forecasts, but forecasts which—in the European region, at least—were not at all borne out by what actually came to pass. How are these discrepancies to be justified or can they be reconciled? This article is the result of a group effort by the Economics Department of PROSPECTS, a publication of Swiss Bank Corporation, Basle.

WHAT MIGHT well hold true on the macro-economic level should not be taken to apply *unconditionally* to the individual case (or *vise-versa*). For instance, a perception that recession was on the way might be perfectly valid-but it would hardly be defensible to say that somebody should therefore increase his consumption or investment, without looking at the actual facts of his own individual situation.

limits to growth

Some predictions incorporate a tendency towards prevention of the forecast event, while others lean towards the category of self-fulfilling prophecy. Publications such as the "Club of Rome" study on the limits to economic growth are obviously not intended to further the postulated decline of civilization. On the contrary the object is to deflect the fateful trends. And as an example of forecasts which themselves contribute to their own accuracy: price rises become increasingly probable as the word spreads that we are having to cope with inflationary forces.

Finally, the distinction must be mentioned between forecasting proper and the setting of targets. The former uses a certain number of independent factors to arrive at a solution of the dependent variable in question. Target figures involve forecasting in the sense of setting out alternative paths for reaching the objectives defined.

The "qualitative" methods amount to descriptions of what the future is likely to bring rather than calculations. With the relatively low outlays involved, these techniques are widely used. The procedure known as "visionary forecasting" relies on personal insight, expert judgement and "intuition" as opposed to the application of scientific methods. The resulting information is mainly in scenario form, presenting what several experts believe to be the possibilities in the light of their experience. The accuracy of this technique on its own would be limited no matter what range of forecast was involved. In practice, however, current knowlede of the results of better methods is being worked into this sort of prognosis.

historical analogies

A more expensive approach to qualitative forecasting is derivation by analogy, specifically the use of historical analogies — i.e a comparative analysis of known patterns of development. It takes a significantly longer time to carry out a study of a past phase of development (even better: various phases) covering several years, although the results are correspondingly more acceptable. But even this procedure is insufficiently precise when the objective is the accurate prediction of turning points in the economy.

The application of indicators represents an attempt to turn the analogy method into a statistical exercise. The rationale is the recognition that there are series of data which occur before, during, or after certain other, economically-important, series; the primary stress here is on turning points, and a great deal of interest is shown in the "leading indicators" published by US government offices.

suitable indicators

The main *problem* lies in the selection of suitable indicators. A close analasis shows that the list of 73 "cyclical indicators" published regularly in the US includes 2 which stand out as indicative of the extreme values: unfilled orders and accession rate of employment. Most of the indicators have been found wanting, for prediction purposes, because their time leads are too short or their behaviour is too erratic. It is true that the indicators have "missed" turning points in only 2 of 117 cases, although they also prompted forecasts of a number of recessions that failed to materialise. The indicators ought probably to be providing the appropriate signals before an economic upswing can be expected – but on their own they are not enough. "Cyclical indicators" thus seem to be useful as an "early-warning system" but hardly as a full-fledged and self-contained forecasting mechanism.

A completely different procedure involves questioning a number of experts and "man-in-the-street" respondents

by which one hopes to objectify or even to quantify subjective opinions.

The first step is to ascertain which subjects to question. For instance, there is hardly any point in surveying an urban population on fertilizer *consumption* and using the results to calculate a *figure for rural* demand. The scope of the survey also has to be determined: broader surveys usually produce *better results*, but they also mean higher costs. Another problem is that subjects can be induced to deliver "coloured" responses, so that the formulation of questions and the interviewer's demeanour become matters of concern.

These difficulties can be partially overcome by using more demanding survey methods, such as the panel technique. A panel survey can be a repeated culling of information from the same group of subjects at what are usually regular intervals. One example of this is the collection of data for Switzerland's consumer price index.

Not even the best survey, though, truly predicts the future. At best, the results amount to an inventory of the opinions, attitudes and expectations of *the individuals involved*. The professional competence of the subjects and the conscientiousness of their responses—at least in the simpler surveys—are and remain question marks.

Delphi method

The Delphi method presents a somewhat different picture. It aims at determining the facts and timing of uncertain future events with the help of systematic, repeated surveys of experts. In light of what has been called the recent flood of forecasts, it could be that the Delphi method is the appropriate technique for a clarification of views.

We turn now from methods in which subjective judgments by experts and the "man in the street"—qualitative hypotheses—play a central role, to techniques which are geared from the outset towards the production of of objectively quantified forecasts. Underlying these models is an idea of flows of goods and services between different economic sectors. Each sector is represented as a produce of goods and services (outputs) destined for certain other sectors in a specific distribution pattern, and is also seen as a consumer of goods and services (inputs) necessary to its production. Investigating the relationships between the various inputs and total output in the individual sectors allows us to determine what amounts of goods and services have to be produced, and where, in order to keep capacity shortfalls and over-capacity to a minimum and at the same time to satisfy a given level of demand.

input-output models

Input-output models can give us interesting information about the economic structure of a country and how it changes. This is the source of its usefulness *in arriving* at sectoral forecasts as well as in assessing *structural* influences. This technique, however, does not particularly lend itself to the *preparation of medium-range forecasts*, and least of all to the projection of final demand. Even in the remaining areas, worthwhile results can only be expected if the exercise is based on a comprehensive, statistical substrate which represents individual industrial sectors accurately. This means its application in the Swiss context would be *illusory*.

The simplest variant of the quantitative analysis of economic developments is the study of a single time series, which is a sequence of statistical observations on the state of play over a certain period (for instance: monthly sales figures). The object is to isolate various components of the time series.

In general, four separate components are distinguished. Seasonal variations (1) repeat themselves at more or less the same time every year. On the other hand, a trend (2) is a steady change in the magnitude or level reflected in a series over a longer period of time; one example would be a gradual change in the composition of the active population, or in its size as a percentage of the total population. Cyclical variations (3) are phases of expansion or contraction, which are witnessed in most economic indicators and are experienced every two, three or more years. Finally, there are (4) the irregular variations which fall outside the other three categories. These irregular variations are most often caused by unforeseeable events such as disasters, wars or strikes.

A number of statistical tools exist for isolating series elements. Examples are the *moving-average* technique, exponential smoothing, and the Box-Jenkins method. They all assume that *existing patterns* will to a certain extent continue into the future; for predictive purposes, these techniques find application with particular regard to the more *immediate* future. Spectral analysis is a new technique for identifying and extracting the various cycles contained in certain time series. For instance, spectral analysis can lead to *the finding that cycles of two, five and* twenty years are present in a given time series, at the same time allowing something to be said as to the amplitude of the variations involved.

regression analysis

This technique is a first step towards the *quantitative* analysis of the built-in interdependence between two or more time series within a fixed period. Regression analysis also performs well in the service of time-series analysis, with a difference between them in the treatment of time as an implicit or variable. It produces an equation in the form, $Y = a + bX$, for instance) which can be used to help build up a forecast, provided that a prognosis is already available for the independent variables.

Regression analysis enables a line

to be plotted which represents the best fit to the data points and observations. It involves minimising the sum of the squares of the differences along the X-axis between the data plotted on the graph and the line followed by the regression equation. In reality, of course, the appearance of "accidental" or inexplicable behaviour is most common. As a rule, the independent variable X alone will not suffice to explain the behaviour of the dependent variable Y; an error term crops up, so that the above equation becomes $Y = a + bX + u$.

This technique gives the analyst the advantage of being able to discard extraneous elements. Various tests have been developed for the purpose, such as calculation of the regression coefficient (R^2), correlation ($\sqrt{R^2}$), standard deviation, and the so-called t-statistic. The application of such techniques when an economic event is determined by a number of factors allows the discovery of auto-correlations (serial correlations), which can be analysed further by using other procedures (Durbin-Watson test, von Neumann ratios). The analysis also has to resolve the multi-collinearity problem, the possibility that independent variables might be statistically interrelated.

necessary conditions

If the tests indicate that certain conditions necessary for a normal regression line (ordinary least squares) are lacking, more complicated procedures are brought in (indirect. simultaneous, two-stage least squares). They postulate a system of at least two equations and accordingly find application, above all, in the articulation of models.

This strikes the layman as all very abstract and far removed from economic reality. When applied by the non-economist or the economist with a weak background in mathematics, such analysis can develop into an endless repetition of trial runs. But if valuable insights are to be gleaned from a sufficient depth of material and knowledge about economic interrelationships at a given moment, this is the only technique available for handling the information in a way which can be quantitatively checked.

sophisticated instrument

The macroeconomic model is the most sophisticated instrument available for handling one or more national economies. A static model presents a picture of the complex relationships between the major macroeconomic factors in a single glance; a dynamic model, with a foundation of historical information, is able to anticipate events in that it "simulates" the economy's future behaviour on a computer. As a system of interrelated equations, a model can take advantage of the existing level of computer capacity to incorporate all the variables considered necessary, or simply available, and it can be oriented towards short-term, medium-range, or long-term forecasting. The econometric model can take in information produced, by all the other techniques, and it has the edge on the others not only because of its complexity and its breadth but also because it can deal simultaneously with the structure and the progress of an economy.

Models, too, are obviously not going to be absolute proof against subjective elements. To be sure, the equations are tested for their fit with the statistical past, but they are initially set up on the basis of theoretical knowledge. The selection of dependent and independent variables and the treatment of causality are linked with the theoretical bent of the model's author and influence the prognosis.

Furthermore, exogenous variables (whose solutions are not supplied from within the model) have to be drawn from other sources; such elements come into play specifically when policy variables are present which are dependent on the forecaster's intuition. But these are minimal, arbitrary elements which can be identified precisely and which accompany a maximum of objective information.

There are certain prerequisites for forecasting by model, a fact which often creates difficulties. For one thing, accurate, complete and comprehensive statistical data must be available—a condition, unfortunately, which is not present to an equal degree in all countries. Particularly serious gaps in this regard turn up in Switzerland, in comparison with other highly developed countries. Because of a model's complexity and the fact that it has to be adjusted periodically to accommodate the structural changes observed, the technique necessitates a heavy log of computer hours and a highly qualified staff: application is either cumbersome or extremely expensive.

macroeconomic models

In addition, monetary systems have not yet been satisfactorily integrated into macroeconomic models—this is all the more true for monetary system on the international level. But prognosis by model is an ongoing process, and not the least of its features is that gaps, and weaknesses, are ruthlessly exposed and clearly identified and can thus be singled out for treatment.

So what are we to conclude from all this? Prognosis is becoming increasingly difficult to avoid as time goes on, because it provides the necessary framework for making rational decisions—and the better the forecast, the better the basis and thus the likelhood of success for the decision. From this point of view, which techniques ought to be given preference?

Every forecasting method bases itself on observation of chronological developments in data series and their determinants as well as the future propagation of these time series under

stated conditions. Each prediction is therefore dependent on the conditions which provide its foundation. Hence the pointlessness of cries for perfect forecasts. The advantages of forecasting techniques which make explicit a multutitude of quantified assumptions and then work with these postulates — against the "naive" method, in which the assumptions of past development patterns or an arbitrary variation of certain factors— are that the assumptions can be discussed individually, and that it is possible at all to consider the significance of each. This is the only way learning processes and rational evolution become possible.

Whether or not a forecast is accurate is not the only important consideration: another question is *why*. How can we be expected to know which economic policy measures are appropriate and in what proportions, without being able to isolate and study their effects as simulated on a model? The number of errors which will inevitably be revealed increases with the precision of the model, the number of individual variables it incorporates. True, errors can be masked by false assumptions or improper functioning of the model, but discrepancies will eventually be pinpointed.

Indeed, the relationship between prognosis by model and the "visionary" forecasting mentioned earlier can be compared to that between modern electronic data processing techniques and counting on your fingers, and the analogy rests on more then just the relative investments in knowledge and financial resource involved or the differences in performance: We are well advised to keep doing certain things by hand, but we would hate to go back to relying on manual labour for everything.

Europe on way to recovery

E. B. Brook

This review of the current economic scene in Europe highlights the economic plight of both Italy and Britain, the ill-effects of drought in west European states and the advice of the OECD ministers regarding control over inflation and unemployment to generate further growth in the economies of the countries in this group.

ANOTHER INTERNATIONAL economic conference; more acknowledgements—this time from the French President—that the wealthy fully-industrialised world owes a good deal more active cooperation to many countries in Asia, Africa and South America; and west Europe perplexed what to do with its economic enfant terrible, Italy: this is a familiar pattern, causes no surprises and raises no expectations.

There is a sneaking but widely-held opinion that the San Diego conference is as much an election manoeuvre by President Ford as it is a serious effort to move once again to set right a very economically sick world. President d'Estaing made his recommendations of greater cooperation to an audience of British bankers and businessmen during his state visit to London and spoke as one former imperial state chief to others of the same type. The Italians, having voted another impasse in their domestic politics, have a deficit equal to 13 per cent of their gross national product, are still waiting for an IMF stand-by loan of $ 530 million because of the Fund's concern over a projected increase in the Italian treasury deficit in 1977, and, while seeking more loans, are preparing to approach the German Bundesbank for a cheapening and slowing down in the schedule of repayments of the $2 billion credit which Bonn extended to Rome in its most recent acute monetary crisis.

It is only three weeks since the Group of Ten made a $5.3 billion loan available to Britain at a time when the £ was taking its latest fall. That loan has a time limit and conditions: it is scarcely to be expected that Italy will receive easier treatment. While some, impressed by two years of wage restraint in Britain, are convinced that recovery is definitely on the way there, no one has such faith in Italy. While a number of Italians are genuinely trying to cut their personal spending this cannot be said of the nation generally which, in the cities, makes great show of luxury living. Tourists return from Italy complaining of extortionate charges and the effort to delay and reduce loan repayments makes a very poor impression. Herr Haferkamp, the European Community Commissioner for Economic Affairs, has spoken of a "Marshall Plan" for Italy similar to that initiated by the US for western Europe after the last war. (Only the Austrian Chancellor, Dr Kreisky, has ever spoken of a Marshall Plan for industrially developing countries.) Haferkamp has called for "massive international solidarity" to enable Italy to carry out far-reaching economic, social and administrative reforms. Support might come also from the US and Japan.

The likelihood of such massive support for a government unable to rule effectively, which tolerates tax evasion in return for party support and which does little to cut spending has been damaged by the "non-result" of the Italian elections. Use of impressive phrases by European Community Commissioners for what they know must be a very reduced effort dangerously saps public faith in Community pronouncements. It is only a few months since the Community members France and Italy were violently at odds over Italian cheap wine imports. It was almost laughable three weeks ago to read that Italy was among the guarantors of a massive loan to Britain: few of leading industrial states today, with steadily rising unemployment and inflation have either the will or the ready means to hand out "massive" help to a country which they regard as a weakening influence within both the Community and the NATO.

Currently, the Community as well as several west European states have another uncontrollable drawback on their hands—drought. Almost all of Britain is suffering badly from drought and a severe heat wave. The rich grasslands and green belts of France are so badly affected that, unable to feed all their animals, farmers are sending cattle for slaughter by thousands. There is growing threat of a "beef mountain" as 10,000 tonnes of meat join the 300,000 tonnes already in Community-approved cold stores. If the final solution is like that of the butter and sugar "mountains" this meat will end up cheaply in Soviet cold stores.

Two meetings this week have shown much more sense of reality than those who speak of "massive" international help. Trade unionists, employers and Community ministers held a day's conference to discuss inflation and its effects. The inflation rate is up from nine per cent last year to 13 per cent in the first four months of this year. This high rate of inflation is steadily generating unemployment and thus, according to many in Europe, undermining the democratic structure of the Community.

The OECD ministers have similarly stressed the point that unless member states make further progress in subduing inflation there must be considerable caution in seeking to reduce unemployment and restore industrial activity to more normal figures. If inflation could be further reduced there was scope for the GNP growth rate of the OECD as a whole to average slightly over five per cent over the five years to 1980 with world trade expanding by eight per cent or something more.

The need for caution and economy has been stressed by the OECD ministers frequently. Governments should make "firm use of fiscal and monetary policies to achieve the general stability in their economies that non-inflationary growth requires". They recommended that in most countries policies should be directed more towards promoting investment than consumption.

In contrast to the optimistic talk from Brussels about "mammoth help operations" for countries in sore economic straits, the OECD criticizes plainly "some larger member countries and quite a number of smaller ones for running unsustainably large current account deficits. "Those with a strong external position were asked not to resist market forces tending to push their current account into deficit.

Avoiding the general practice of moving easily from pessimism to almost excited relief in commenting on and assessing individual states' economic positions, the OECD prefers slow but steady recovery safeguarded by cautious avoidance of rushing for recovery and hailing it before better fortune has been certainly established.

To choose a future

Amulya Kumar N. Reddy

"The kind of society and the kind of environment being created by the developing countries is largely dependent on the kind of technology they choose for the job of development"—this is the conclusion reached by Amulya Kumar N. Reddy who is the Convenor of ASTRA (Cell for the Application of Science and Technology to Rural Areas) Indian Institute of Science, Bangalore. He is currently on a one year assignment with the United Nations.

SCRATCH ANY piece of techology and you will find the values and aims of a society it was designed to serve. For technology is like genetic material—it carries with it the code of the society which conceived it.

That is why the choice of technology is such a crucial decision for the developing countries today. The kind of society and the kind of environment which they will create depends to a large extent on what technology they choose for the job of development.

There are several possible technologies, for example, for increasing fertiliser production—a task which almost all developing countries are now setting themselves. How does the choice of technology for that job affect the kind of society and the kind of environment created?

One possible choice is the installation of large coal-based fertiliser factories. Another is the building of small bio-gas plants at village level. The bio-gas plant breaks down human and animal wastes into a rich fertiliser and releases energy in the form of methane gas which can be used for cooking. The graph (see page 147) summarises the different impacts of the two methods.

The target for each method is the same—230,000 tonnes of nitrogen fertiliser per year.

Firstly, the choice of village level bio-gas technology base fertiliser production on renewable wastes as opposed to non-renewable resources.

Secondly, the bio-gas plant is non-polluting, whereas the coal-based fertiliser plant causes serious atmospheric pollution by emission of carbon dioxide.

On the economic front, the small-scale village bio-gas alternative saves $15 million of precious capital and $70 million of foreign exchange in countries which have acute capital shortages and balance of payments

crises. In addition the bio-gas plants yield a higher return on investment and deliver the urgently needed fertiliser more quickly—because the small plants can be brought to full production capacity in months whereas the large coal-based plant takes years to build and tune up to full production.

In terms of social development, the choice of bio-gas technology disperses production to 26,150 villages rather than concentrating output in one centre. So the benefits of development are spread more evenly. At the same time, it generates 130 times as much employment in countries where unemployment is one of the greatest perpetuators of poverty. And it provides that employment where it is most needed—in the poorer rural areas where the majority of the population still lives. In so doing, it also helps to arrest the disastrous drift to the slums and shanty-towns which surround many of the Third World's cities.

at the source

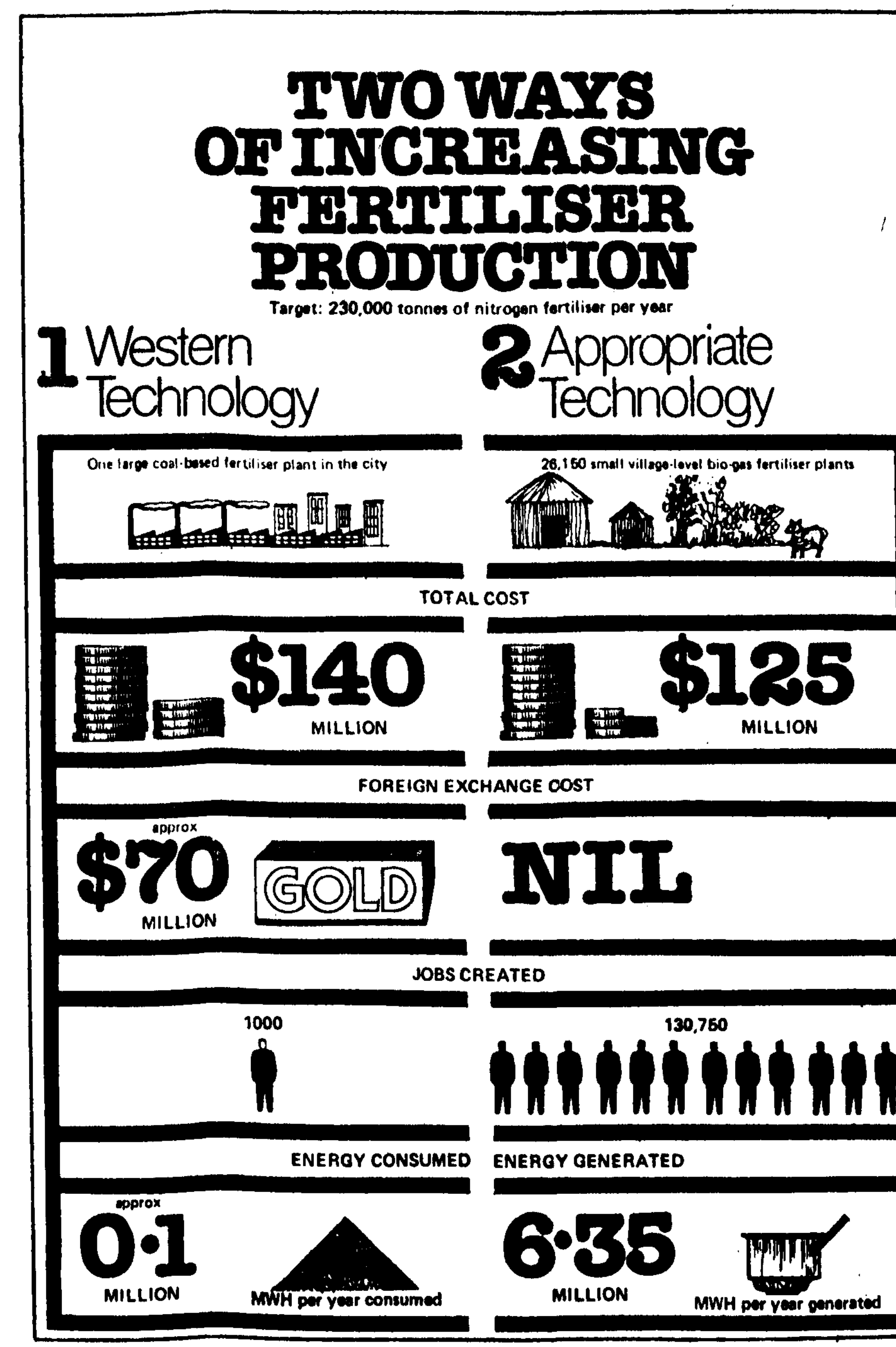
In terms of 'infrastructure', the choice of bio-gas produces the fertiliser where it is to be used, so avoiding the costs of packaging, marketing, advertising and transport and taking the strain of the already overloaded road and rail systems of the developing world. Not least, it frees the villager from dependence on the usually corrupt and inefficient systems for getting the fertiliser from the urban producer to the rural user.

In terms of the New Economic Order the choice of the small-scale village level technology reduces the developing country's dependence on the developed world because the technology of bio-gas plants can be indigenously evolved whereas the technology of large coal-based fertiliser plants usually has to be imported from the west.

The list of advantages does not end here. Self-reliance and meeting of basic needs are the very foundations of development and genuine progress. And it is in this respect that the decentralised village scale bio-gas choice really comes into its own. It can mean increased self-reliance in two fundamental needs—fertiliser for growing more food and energy for cooking it.

The output from each village bio-gas plant can provide two and a half times the nitrogen fertiliser now used on the 290 cultivated acres of the average Indian village. And this significant increase can be achieved by using the body waste from 500 human beings and 250 cattle. As 60 per cent of India's villages have a population of under 500 and as the ratio of people to cattle is roughly 2:1 this means that most of India's villages can more than double their fertiliser use from their own renewable resources. That alone could be a great stride forward in self-reliance.

But finally there is the crucial ques-



tion of energy needs. The city-based power station in the developing world rarely provides energy for the rural areas. The typical energy allocation of these centralised power stations is 80 per cent to urban industry, 10 per cent to urban homes and 10 per cent to rural areas. In India for example, only about 11 per cent of the villages with a population under 500 have electricity.

The energy starvation in the rural areas has profound effects on many aspects of development. If, for example, a rural family has to spend four to six hours per day bringing drinking water from a well or a stream, and another four to six hours a day collecting firewood for cooking fuel, and another four to six hours per day grazing the cattle, then the only way the family can manage this is by having a large number of children. Indeed, millions of poor families depend today on the 'energy contribution' of children for survival. So anything which will increase the available energy in a village will speed up development and eventually slow down population growth by making it less necessary to have large families.

energy needs

The choice of bio-gas technology for fertiliser production could provide that essential energy. A crude estimate of the energy needs in a village of 100 houses and 500 people is about 200 KWH per day for cooking; about the same for water pumping and small industry; and about 100 KWH for lighting. That is a total of roughly 500 KWH per day. The 5,000 cubic feet of bio-gas which is produced as a 'by-product' of making fertiliser out of animal and body wastes is the equal of about 660 KWH per day.

So this particular choice of technology has another crucial implication—the western coal-based feriliser technology implies *consuming* energy equivalent to the needs of about 550 villages, whereas the alternative bio-gas fertiliser technology helps in *producing* the enegy to help meet the needs of 26,150 villages and of the poor in those villages.

The problem of distributing bio-gas cooking fuel to individual houses can be transformed into an advantage by using plastic pipes which convey clean drinking water at certain times of the day and bio-gas at the peak cooking hours. A protected water supply system of this kind, in conjunction with latrines that feed human wastes in to the anaerobic digester of the bio-gas fertiliser plant, may prove to be a breakthrough not only in meeting energy needs but also in in providing low cost public health technology to eradicate the water-related diseases which are a major public health problem in almost all developing countries.

vital catalyst

Lastly, the creation, operation, maintenance and management of the bio-gas fertiliser plant by village people can be a vital catalyst in stimulating and sustaining social participation and people's control whieh are the surest guarantees of real development.

The example of bio-gas fertiliser production shows in capsule form why the choice of western technology for most developing countries wastes scarce capital, concentrates benefits in urban areas, restricts rural employment opportunities, accelerates the drift to the urban slums, squanders foreign exchange, puts the village at the mercy of the towns, increases dependence on the developed countries, undermines self-reliance and the meeting of basic needs, and defeats and distorts the developed process.

polluting environment

Whilst the prolific development of western technology has led to spectacular increases in production, it has also shown an inbuilt tendency to damage the environment, reduce participation in the decision making process, and magnify inequalities between and within countries.

Bp contrast, alternative technology such as the small-scale bio-gas plants is in harmony with the environment and with genuine development. It tends to reduce inequalities, to meet real needs instead of artificial demands, and to increase self-reliance and participation by people in the decisions which affect their lives. Without a commitment to new and alternative technology, there cannot be a real advance towards meaningful development, towards a new economic order and, indeed, towards a new world.

World food security system

Arvind Bhandari

The food deficit of developing countries is estimated to rise to 100 million tonnes by 1985. How far will the surpluses of the developed countries be able to fill this gap? Mr Bhandari is of the view that the billion dollar fund which is proposed to be established under the auspices of the United Nations will barely touch the need of the developing countries.

THE ROME TALKS to establish a global food security system have ended in a dismal failure, showing, as in the case of UNCTAD—IV, the inability of the world's haves and have-nots to rise above their prejudices and mutual suspicions. The blame for the vital deliberations of the 30-member World Food Council (WFC) coming to a nought must be shared equally by the industrialised nations and the developing countries as represented by the Group of 77.

niggardly attitude

From the beginning, the rich nations were ill-disposed towards the idea of building up world food buffer stocks. They had been showing a niggardly attitude towards the idea ever since it was mooted at the World Food Conference in November 1974. When their reluctance to contribute to an internationally held world food reserve became all too apparent, Dr S. Aziz, Deputy Executive Director of the World Food Council, came out with the idea of a two-tier buffer stock system. It was proposed to reduce the quantum of the active internationally held buffer stock to such a low level—one million tonnes—that the individual contribution of the developed nations would become nominal. Simultaneously, it was proposed that a bigger buffer stock of, say, 50 to 60 million tonnes should be held by national governments themselves within their own countries.

It was stipulated that the internationally held one million tonne buffer stock would be used for short-term emergencies in poor countries, like the earthquake in Guatemala or a sudden crop failure. The bigger buffer stock could be used to release grain in the event of foodgrain prices in any part of the world rising above a certain level.

Since the two-tier system appeared to gain acceptance of the world's major grain producers such as the USA, Canada, Australia and Argentina as well as other surplus countries like France and West Germany, considerable optimism was generated hoping that the just-concluded World Food Council meeting would be successful in achieving agreement on the establishment of a world food security system. These hopes went awry.

rigid approach

The approach adopted at Rome was such that it spawned trouble. The proposal to build buffer stocks was made part of a comprehensive package of food aid commitments which the Group of 77 wanted to extract from the industrialised countries. One of these proposals was that the rich nations should promise up to 8000 million dollars a year in agriculture aid to the developing countries. The high-powered Indian delegation led by the Agriculture minister, Mr Jagjivan Ram, also pressed for acceptance of this proposal. The United States, Britain and West Germany put their foot down, and the entire package went by the board. After a 14-hour debate, the WFC referred the Third World resolutions "to the appropriate UN bodies and the governments of member states".

increasing gap

It is undeniable that the increasing gap between the rich and the poor countries is causing much impatience and frustration in the Third World. Nevertheless, it is difficult to support the demand of the Group of 77 for a promise of agricultural aid from the rich nations to the tune of 8000 million dollars a year. The demand appears to be excessive when account is taken of the fact the WFC deliberations were immediately preceded by a United Nations Conference, attended by delegates from 80 countries and also held at Rome, which decided to establish the one billion dollar International Fund for Agricultural Development (IFAD).

In fact, the agreement to establish IFAD as a United Nations agency is the only concrete gain from the international gatherings at Rome. However, this gain cannot off-set the loss because of the failure to agree on a world food buffer stock system. The Fund, intended to give aid to developing countries for the promotion of their agriculture, is conceived as a long-term panacea. But with the food problem becoming increasingly pressing, some relief is felt to be necessary in the short-run, and this can only be provided under a global food security system based on buffer stocks.

The importance of IFAD should not, however, be minimised. In the long-run, there is no alternative to increased food production in the developing countries, whose food deficit is expected to touch 100 million tonnes by 1985. The surpluses of the United States and Canada, and to some extent Australia and Argentina, cannot go on meeting the food deficits of these countries if they go on increasing progressively. In 1974 the developing countries imported 48 million tonnes of foodgrains. India also imported 5.5 million tonnes at a cost of $981 million.

Protagonists of the Fund also point out, pertinently, that it will, to some extent, enable channelisation of the resources of the world's haves into agricultural development, resources which might otherwise be frittered away in pursuit of ostentation and superfluity.

The one billion dollar IFAD can of course barely touch the fringe of the need to massively increase investment in agriculture in developing countries. The World Food Conference had estimated that agricultural investment in the developing countries will have to rise from 1.5 billion dollars in 1974 to five billion dollars in 1980. Since the Fund is intended mainly for promoting irrigation in poor countries, it was also estimated that the cost of irrigating 90 million hectares of land which could benefit from an assured water supply would be around 60 billion dollars.

Although a resolution to form an international fund for helping the developing countries had been adopted at the World Food Conference, its implementation had been hanging fire because of the insistence of the industrialised nations that the OPEC countries should contribute about one-half of the one billion dollars. Thanks to the understanding shown by the oil-rich countries, a compromise has now been possible at Rome. The OPEC countries will contribute 400 million dollars, industrialized nations 530 million dollars and 15 million dollars will come from token contributions by the Third World countries. This totals to $945 million. Pledges for the remaining $55 million are likely to be made by September 30, 1976 when the agreement will be formally signed.

It was thought good in principle that the recipient countries should also make token contributions. Of the 15 million dollars, India and Mexico have pledged five million dollars each. Contributions of one million dollars each came from Pakistan, Sri Lanka, Kenya and Guinea. Other countries have pledged smaller contributions.

The IFAD is conceived of as a development fund which will disburse grants and loans on highly concessional terms to increase food production. The three categories of countries—industrialised, OPEC members and the recipients countries—will share votes equally. Thus, two-thirds of the votes lie with the developing countries, who will have a major influence on the investment decisions of the Fund.

It is stipulated that disbursements from the Fund should be carried out through existing international and regional institutions such as the World Bank, FAO, Regional Development Banks and the United Nations Development Programme. This will ensure that the secretariat of IFAD is kept to a certain limited size.

Interview : Dr N.B. Prasad

'Technology keeps advancing all the time'

The Oil and Natural Gas Commission (ONGC) is one of the few oil companies in the world engaged in every aspect of oil exploration, drilling and production. In this exclusive interview with S.P. Chopra, Acting Editor, *Eastern Economist*, Dr N.B. Prasad, chairman of the ONGC, has described the various steps being taken for attaining self-reliance in material inputs and in mastering the new technology. He is proud of his men who have done an outstanding job at Bombay High where commercial production of oil started just over two years after oil was struck.

Q. *What are the prospects for the indigenous output of crude oil during the current year? How much more is it likely to be in relation to last year?*

A. We produced 5.1 million tonnes of crude oil last year. It was around four million tonnes in 1973-74. For three years consecutively it was steady at four million tonnes. In 1974-75, it rose to 4.5 million tonnes. In 1975-76, it further increased to 5.1 million tonnes. This year our target is 6.3 million tonnes. Out of this, the contribution of Bombay High will be about one million tonnes.

Q. *The off-shore exploration seems to be getting all the attention currently. Have you got any long-term perspective on probable yield of crude oil from this source?*

A. Quite recently we have been discussing the revised five-year Plan with the Planning Commission. The current thinking is that the off-shore sources might yield 13 million tonnes as against 8 million tonnes from on-shore sources by 1981-82.

Q. *Have you done any thinking on probable consumption of crude oil by 1981-82?*

A. The estimates of probable consumption of crude oil by 1981-82 have a wide spectrum.

Q. *In order to achieve the target of production of 13 million tonnes of crude oil off-shore by 1981-82, what are the challenges in terms of men and materials which you are likely to face? What technical hurdles are to be overcome? What about finance?*

A. The challenges are many. Take the production of four million tonnes of crude oil in 1974 as against the target of 21 million tonnes in 1981-82. It means a five-fold increase in production in eight years; this in itself is a challenge. It means that the annual growth rate has to be significantly high. This order of increase in production—500 per cent in eight years—can be a big challenge for any organisation. This is indeed a very ambitious target which naturally requires massive inputs of a large variety covering materials, equipment and manpower, the most important element being sophisticated technology. Do not forget that we have undertaken off-shore activities only in the last two years. Prior to that we had been operating entirely on-shore. Currently, the whole new technology of off-shore exploration is being mastered. In fact, we have already mastered a fair share of the new technology associated with off-shore exploration. We are planning to produce a million tonnes of crude oil from off-shore sources this year. So the rate of assimilation of new knowledge has of necessity to be very fast. It has indeed been very fast. If the same tempo can be kept up, the target that we have fixed becomes feasible.

Q. *It means that in order to attain the target which you have fixed for 1981-82 you have no option but to maintain the current tempo of operation. May be, you will have to import some technology. Do you have the wherewithal for that?*

A. We are not importing technology. There is transfer of technology which has to take place fast and we are trying it in two or three different ways.

First, we have started an in-house training school wherein we take in fresh engineering graduates in geo-sciences and also in other branches of sciences, put them through a one-year multi-disciplinary training course and after this, they specialise in their chosen fields. During 1976, for example, we will be training nearly 300 graduate engineers and scientists. And over the next five years we estimate that at least 1500 students would pass through this school. These 1500 students are to be compared with a total strength of 1300 we had in

1974. We are really doubling the availability of technical manpower within the ONGC. Second, we are strengthening the Institute of Petroleum Exploration (IPE). We have merged the erstwhile Directorates of Geology and Geophysics so that the Institute is a much stronger group than it ever has been. And we are funding IPE very substantially now. We have divided its programme into some 50 research projects which we hope to complete in the next two or three years. And we have added a very large Computer Centre in Dehra Dun with an IBM 370-145 and this enhances our capabilities substantially. This computer can do multi-programming. For example, it can do simultaneously some eight kilometres of *seismic* data processing and also do mathematical modelling required for reservoir engineering. The earlier computers we had were capable of processing data at the rate of one kilometre per hour. So we have enhanced our computer capabilities. We have inducted a lot of new blood into our computer programmes.

Then we are setting up two institutes —one for reservoir engineering and the other for drilling technology. Thus, these three institutes plus the powerful computer will provide us the technological base for a very ambitious programme.

Then we are also sending a lot of people abroad for short-duration training in various fields. And wherever we identify a technical gap, we are arranging for services from foreign companies but at the same time ensuring that we have under-studies so that our boys are able to take over the jobs in the shortest possible time.

Q. *Are you hiring these technical hands from abroad?*

A. Yes. For example, when Sagar Samrat came in 1973, we started operating it with the assistance of 28 foreign technicians. Now their numbers has been cut down to two. This I am citing only by way of example. The same process is being repeated in other areas also. Today we are dependent entirely on foreigners for our diving which is an important component of our offshore work. Again, in the next two or three years a good number of them can be replaced by Indian divers trained on the job. We are now taking the steps, so that we are able to master this technology also. Given the rate of assimilation of new technology, we are hopeful that it can be done in good time.

Q. *You have just mentioned 50 projects. What type of projects are they?*

A. They are mainly research and development projects—off-shore and on-shore. Some are in the area of geology where better tools can be used for geological date interpretation. Similarly with *seismic* data acquisition, data processing and data interpretation, and drilling, for example. These are the main areas of oil exploration.

Q. *It seems that currently the ONGC has put spotlight on off-shore exploration. What about a long-term programme for drilling on-shore?*

A. The targets — long-term and short-term — are based on discoveries already made. It is not that we have preferred one or the other. From discoveries already made, we know that by 1981-82, we can take off-shore production of crude oil to 13 million tonnes and that of on-shore output to eight million tonnes. It does not mean that we are slackening on on-shore exploration.

In fact we are intensifying our efforts on-shore also. You must have come across Press Notes recently which state that the ONGC is going back to Jammu, Himachal Pradesh and Uttar Pradesh and we have already gone back to West Bengal to intensify on-shore activities.

Q. *What has been the basis on which you decided to go back to areas which were earlier thought to be non-productive for crude oil?*

A. The areas I have just mentioned are the more promising areas of the sedimentary basins on-shore which are held prospective from a broad geological assessment. But in these areas, earlier exploration work was unsuccessful. So we have conducted a review of the past operations. We are now drawing up a strategy which should permit us, with better technological inputs, to make an improved assessment of the prospect.

Q. *What was wrong with the assessments in the past?*

A. Let us not forget that technology keeps advancing all the time. We have now better *seismic* tools. We can use more sophisticated tools. Similarly, we have better rigs now which go much deeper. We can handle higher pressures. With these technological improvements, a breakthrough might be possible in any one of these areas.

Q. *Even in states such as West Bengal and Uttar Pradesh where we drew a blank in the past?*

A. Please remember that it has not been conclusively proved that there is no oil in these states or that these states are not hydro-carbon bearing. The programme conducted in the past was no doubt unsuccessful. But the non-existence of hydro-carbons in these areas has not been proved conclusively.

Q. *What are the financial dimensions of the work which you are undertaking?*

A. The financial requirements have multiplied manifold. The budget for 1973-74, for example, was Rs 80 crores only. The approved budget for the current year is Rs 345 crores while we are asking for an additional Rs 95 crores. So you see that the budget now is almost five times of what it was two years ago. I think we will be able to stabilise at this level of expenditure for the next two or three years consistent with the targets we have set out. If there are additional discoveries, the budget has to be larger.

Q. *What about the joint operations of the ONGC with some of the foreign countries such as Iran and Iraq. What progress has been made there? What is the rate of progress?*

Iran is an on-going operation started six to seven years ago. And there production is now 0.6 to 0.7 million tonnes a year as our share which is one-sixth of the total production. In Iraq we have a service contract which calls for exploration of about an area of 5,000 square kilometres, about 100 miles west of Basra in the desert. And there also, I think, our men have met a great challenge in that they are working in a trackless desert; habitation is 100 miles from the exploration zone where work is going on in 12-hour shifts. The men come back to Basra for short periods of rest. It is a hostile environment in which our men have learnt to work. There the first well is nearing completion. We hope to test and assess the structure very shortly. In addition, we have also taken up a *seismic* contract in Iraq — covering about 1500 to 2000 line kilometres at a cost of three to four million dollars. This has started from the first of June this year. We have also taken up a drilling contract in Tanzania; it was signed sometime in January this year. The rig is now in position and in a week or two the well will be spud — this is a well on an island about 100 miles west of Dar-as-salam.

Q. *Any other country where you are likely to have a contract in the near future?*

A. Not immediately but we are keeping our options open. We are on the look out for possibilities abroad.

Q. *How does the technical competence of our men compare with those of the advanced countries?*

A. I think it compares very well in the sense that Bombay High has been put on stream exactly 27 months from the date of discovery, and twenty four months from the testing of the first well. I think this compares favourably with off-shore development anywhere else in the world. Given our water depths, environmental conditions, wind and wave conditions, a remarkable job has been done. So the greatest asset of the ONGC today is its manpower which has proved itself.

Q. *As chairman of this fast-expanding undertaking, can you point to any single aspect which is the biggest challenge today? You have a number of challenges to face, I presume, but which is the one commanding your greatest attention currently?*

A. The biggest challenge which any chief executive has in any organisation is how to motivate his people to achieve more than what they can normally achieve because our targets are very ambitious. So we need a highly motivated group. And that is exactly what we are developing.

Q. *Does it mean that the chief executive has to be more of a psychologist than a manager?*

A. I have not said that. What I said is that motivation is one of the factors which enables an organisation to succeed. And more so in an organisation like this. It is unlike a manufacturing unit where operations are mostly controlled by machines. Here operations are not controlled by machines — not determined by machines but by human capabilities. So this is the big difference between other public sector undertakings and the ONGC.

TRADE WINDS

Indo-French Cooperation

THE INDO-French ministerial talks on furthering trade and economic cooperation ended recently on a promising note with both sides agreeing to take concrete steps to promote greater industrial and technical cooperation between the two countries. The Commerce minister, Mr D. P. Chattopadhyaya and French External Trade minister, Mr Raymond Barre, described the talks as productive and envisaged increased and fruitful co-operation in trade and economic fields.

Joint Ventures

The French side has agreed to send a high-powered industrial mission to India later this year to assess Indian capabilities in various sectors. Mr Barre especially noted the potential of joint ventures in third countries, indicating that India could get sub-contracts in the execution of joint ventures. Mr Chattopadhyaya pointed out that discussions also covered multilateral matters such as UNCTAD problems and north-south dialogue in Paris on commodities. He found French views on many of these matters constructive and appreciative of the problems of developing countries. The joint committee on economic and technical cooperation decided to set up expert groups to look into specific areas of trade and technical cooperation including joint ventures in third countries and in India.

Indo-American Collaboration

The Indo-American Chamber of Commerce business delegation which visited the US in December last year has called for a policy announcement regarding areas where this country would welcome foreign, financial and technical collaborations. It has also urged the streamlining of procedures for the supply of raw materials and finance for exporting units in order to meet the time schedules of American businessmen.

In a report released recently it has advised that visits of trade delegations on a reciprocal basis be repeated periodically and product-wise missions be sent to follow up the contacts initiated by the delegation. Senior officials of America's large corporations, particularly those engaged in construction projects, should be invited to the country and shown around important industrial projects.

It has recommended that a high-powered committee should go into the question of launching a publicity programme of India's achievements in the industrial field abroad. It has suggested that Air India be asked to show films on Indian industry during flights and that Indian missions abroad be requested to arrange for such film shows. Publicity through major papers in the US has also been recommended.

Import of Edible Oils

The State Trading Corporation (STC) is to arrange for further imports of edible oils on a priority basis in order to meet the increased demand from the vanaspati industry. The government has made it clear to the STC that allocation of foreign exchange will pose no problem in augmenting stocks of imported oils. The directive to the STC is a sequel to the government's decision raising further the compulsory usage of imported oils in the manufacture of vanaspati to 50 per cent from the middle of this month. Only a few days ago, the percentage was increased to 20 per cent from 10 per cent.

Seepz Exports

Exports from the Santa Cruz Electronics Export Processing Zone, Bombay (SEEPZ) crossed the first crore of rupees with M/s Semiconductor Electronics Limited making their maiden consignment of rupees 1.30 lakhs worth of printed circuit board assemblies. With the world-wide recession in electronics industry abating, SEEPZ of late is picking up. In fact, its performance during the last three months has been spectacular in that it could turn out almost the same quantum of exports as it could in the whole of the previous year. It may be recalled that during the year 1974-75, exports from the SEEPZ was of the order of only Rs 5 lakhs while in 1975-76 the figure was Rs 56 lakhs—a little over its target of Rs 50 lakhs and 11 times its previous year's export. Between April and June, 1976, it made tremendous strides and has exported more than Rs 40 lakhs of electronic items against current year's target of Rs 5 crores.

New Companies

During the last few months a few new companies with new lines of manufacture have come up in the zone. Notable among these is the remote control X-ray equipment of CGR (India) Limited, the operations of which were inaugurated by the Commerce minister in May, 1976. The latest entrant in production is Semiconductor Electronics Limited, for the manufacture of solid state relays and rectifiers for communication systems in collaboration with the International Rectifiers Corporation of USA.

Telecom Ties

This country will do her best to remove the hangover of the colonial past in the field of telecommunications among her neighbours. This was stated by Dr S. D. Sharma, minister for Communications, when Mr Jog Meher Shrestha, minister for Communications in Nepal called on him recently. Assuring Nepal of India's fullest cooperation for developing not only telecom links but in establishing telecom industries, Dr Sharma said the second Earth Station coming up at Dehra Dun will soon open a new window to the world for Nepal. Meanwhile, the terrestrial links with India are being strengthened. He hoped that it would soon be possible to have semi-automatic telephone links between Delhi and Kathmandu and Calcutta and Kathmandu.

Indo-Nepal Talks on Trade and Transit

The agreed record of the discussions regarding Indo-Nepal Trade and Transit Treaty was signed recently by Dr P. C. Alexander, Foreign Trade Secretary, government of India, and Mr Devendra Raj Upadhya, Secretary, Commerce and Industry, His Majesty's Government of Nepal, on behalf of their respective governments. It was decided that talks would be continued in Kathmandu, at a mutually convenient time. Talks were held between Napalese and Indian delegations from June 22 to July 3, to discuss the Indo-Napal Trade and Transit Treaty of 1971 which expires on August 13, 1976. During the discussions both sides put forward the difficulties they had faced, in the last five years, in the implementation aspect of the treaty, in relation to trade as well as transit.

The treaty aims at the expansion and diversification of trade, in goods and products originating in territories of the two countries. In addition it allows Nepal access to third country markets, through transit points and warehousing, handling and port facilities in India, and conversely allows imports from third countries to the Nepalese market through the Calcutta port and specified railway routes and entry points. The treaty provides for the most favoured nation treatment for goods originating in either country. In addition it provides for preferential treatment to goods originating in Napal, on a non-reciprocal basis.

Earnings from Meat

While Indian supplies of fresh, chilled and frozen meat earned Rs 5 crores in 1974-75, the exports even during the first three quarters of 1975-76 were close to Rs 5.9 crores. Meat of sheep and goat, which netted Rs 1.15 crores in the first three quarters of 1975-76 as compared to Rs 1.05 crores in the entire preceding year, was supplied more to the principal foreign customers, viz. Dubai, Abu Dhabi, Bahrein Islands and Muscat. Over 981 tonnes of this product was supplied abroad in 1974-75 while in the period under review during 1975-76 the quantum exported was 929 tonnes. Frozen frog meat is a typical delicacy from India, which has been appreciated in the USA for long and now in France and other European markets. In 1974-75 this supply fetched Rs 1.5 crores—Rs 1.2 crores from USA alone — but during 1975-76 US purchases totalled Rs 96 lakhs while France imported worth Rs 1.12 crores. Belgium, the Netherlands, Denmark and Italy are among the other European buyers of the frog meat.

Opium Exports

This country has been a significant supplier of crude opium to most of the industrialised countries of the world. The export was about 760 tonnes in 1974-75 at a foreign exchange value of Rs 1.75 crores. During the subsequent year, the unit value improved and a quantity of about 490 tonnes fetched Rs 17.9 crores during the first three quarters of 1975-76. USA has been the leading customer for Indian opium. The OS imported 189 tonnes at about Rs 4.5 crores in 1974-75 and 160 tonnes at Rs 6.54 crores in the first three quarters of 1975-76. The UK bought 151 tonnes at Rs 3.7 crores and 101 tonnes at Rs 3.6 crores in the respective periods, while the Soviet purchases amounted to 37.5 tonnes at Rs 7.8 crores and 60 tonnes at Rs 20.5 crores in these periods. Imports by France have also been substantial. It bought opium worth Rs 1.64 crores in 1974-75 and Rs 2.0 crores in the period reviewed in the subsequent year. Similarly, imports by Italy rose from Rs 75 lakhs to Rs 1.07 crores. Among the other customers of Indian opium are Belgium, Bulgaria, German Federal Republic, Sudan, Switzerland and Yugoslavia. India also exports a wide range of other materials of vegetable origin, such as guar flour, palmyra leaf stalks, palm fibre, raw kapok etc.

Advances Against Cotton & Kapas

In view of the sharp rise in the prices of raw cotton witnessed recently reflecting an imbalance in the market, the Reserve Bank has tightened the selective credit controls relating to advances against cotton and kapas, bearing in mind the action taken by the Textile Commissioner regarding the maximum stocks that can be held by mills. Inventory levels in respect of which bank advances may be given with normal margins have been substantially reduced and in respect of additional stocks, the margins have been stepped up. Thus, in the case of mills in Bombay and Ahmedabad, as against the existing margins of 25 per cent for stocks of 12 weeks' consumption and 50 per cent for excess stocks, the margins have now been fixed at 20 per cent for stocks of four weeks' consumption and 45 per cent for excess stocks. Similar changes have been made in respect of other areas also as indicated below. In the case of parties other than mills, margins have been raised from 25 per cent to 45 per cent in respect of new and/or long staple cotton, from 50 per

cent to 60 per cent in respect of indigenous cotton and from 40 per cent to 50 per cent for stocks covered by warehouse receipts.

Advances against cotton and kapas to industrial users such as manufacturers of surgical cotton have been exempted. Advances to mills in West Bengal run by the National Textile Corporation or by its authorised agencies against stocks equivalent to 8 weeks' (as against 14 weeks earlier) consumption have also been exempted.

IDBI Rediscounting Scheme

At present the maximum amount for rediscounting of bills or promissory notes under the scheme pertaining to a single purchaser is Rs 50 lakhs over a limit year which is reckoned from October 1 to September 30, of the following year. The question of enhancement of the said limit has been under consideration of the IDBI for some time. It has now been decided to raise this limit to Rs 75 lakhs (face value of bills) over a year with effect from July 1, 1976. The above limit of Rs 75 lakhs is subject to the sellers having the necessary discounting limits under the scheme with their bankers in the normal course. It has been further decided that henceforth projects for setting up new units (other than small-scale industrial units) will not be eligible for assistance under the scheme. Projects to which the IDBI has already agreed to render assistance under the scheme or projects whose financing pattern has already been approved by the IDBI as also small-scale industrial units will however be eligible for finance under the scheme.

Last year, IDBI sanctioned rediscounting limits in favour of approved banks for the period ending June 30, 1976. Consequent upon the change of limit year to July-June it has been decided to change the present purchaser-wise limit year also, from October-September to July-June with effect from July

1, 1976. In view of the increase in overall limit per purchaser the utilised limit, if any, in respect of a purchaser for the puchaser-wise limit year ending September 30, 1976, will have lapsed on June 30, 1976. The purchaser may however, avail of the fresh limit of Rs 75 lakhs (face value of bills) from July 1, 1976.

Sugar Output

According to the Indian Sugar Mills Association the sugar production in the month of May, 1976, the eighth month of the season 1975-76 was about 96,000 tonnes as against 243,000 tonnes during the corresponding period last season. This brings the total production during the first eight months of the 1975-76 to about 4,221,000 tonnes as against 4,697,000 tonnes during the corresponding period last year. The off-take of sugar from factories during the month of May, 1976, was about 277,000 tonnes for internal consumption and 71,000 tonnes for exports as against about 265,000 tonnes for internal consumption and 39,000 tonnes for exports in the corresponding period last season. The total despatches in the first eight months in 1975-76 was 2,387,000 tonnes for internal consumption and 854,000 tonnes for export as against 2,157,000 tonnes for internal consumption and 563,000 tonnes for exports during the corresponding period last season. The total closing stock of sugar with the factories as on May 31, 1976, was about 2,187,000 tonnes as against 2,805,000 tonnes on the same date last season.

World Bank Aid for Telecom

This country will receive a US $80 million loan from the World Bank to help finance expansion of its telecommunications system. The project is expected to alleviate congestion in city and long-distance telephone networks, improve telex services and bring new telephone service to 220,000 subscribers. The project will include the installation of 274,000 local telephone lines and the connection of about 220,000 direct exchange lines. A small satellite earth station will be built to provide good quality communication between the Andaman Islands and the Indian mainland. The project includes electronic telex exchanges for Bombay, New Delhi, Calcutta and Madras.

Forty per cent of the new direct exchange lines will be provided in the major cities to meet priority needs and to provide essential improvements to service. The remainder will be allocated through the rest of India. About 200 small communities will receive new telephone exchanges and 1,200 public call offices will be established to extend telephone service to more villages.

Grant for Research on Semi-Arid Tropics

Technical assistance, amounting to $325,000, approved by the Asian Development Bank for the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) Hyderabad, aims at benefitting some of the world's poorest farmers. The technical assistance by the bank will support new research by ICRISAT, established four years ago with international backing in Hyderabad, into the development of improved animal-drawn farm equipment and implements. The bank's aid will be used for the establishment and initial working of the ICRISAT research project after which it will be financed from the Institute's core budget. The semi-arid tropics of Asia refer to parts of India, Burma, Pakistan and Thailand having a combined population of 300 million. These areas have small fragmented farm holdings.

Dry Farming

Efforts to reduce the high risk of farming in these areas and increase productivity are among the most important tasks facing ICRISAT, which was set up in 1972 by the Consultative Group on International Agricultural Research (CGIAR), of which the bank is a member. The main thrust of the institute's research activities is directed towards evolving suitable dry farming techniques and the selection, improvement and utilization of crops that can be grown with restricted water supplies. The major objectives of ICRISAT include: Serving as a world centre for improving the yield and nutritional quality of sorghum, pearl millet, pigeon pea, chick pea and ground-nut; developing farming systems aimed at increasing and stabilizing agricultural production through better use of natural and human resources; and identifying socio-economic and other constraints to agricultural development in semi-arid regions, and ways of easing them through technological and institutional changes. The institute also assists national and regional research programmes. It has set up close working relationships with organizations in India as well as cooperative programmes with organizations in Sri Lanka, Thailand, the Philippines and Bangladesh. Similar cooperation is proposed for Pakistan.

Names in the News

Mr J.S. Negi, Chief Executive, Research & Development Centre of Jyoti Limited, Baroda was sponsored by the All India Management Association to attend the "International

Mr J.S. Negi

Seminar on Management of Research and Development." The seminar, organised by the Centre for Education in International Management, Geneva, Switzerland, was held from June 28, 1976 to July 9, 1976.

COMPANY AFFAIRS

British India Corporation

At the 56th annual general meeting of the British India Corporation Limited for the year 1975 the chairman, Mr P.N. Mathur, outlined the steps which were being taken to replace the old and obsolete machinery and to modernise the plant. With the support of financial institutions this programme is proposed to be executed in two stages. The first stage will be completed by the middle of 1978 and the second by the middle of 1979. The chairman is confident that after the completion of the modernisation programme the corporation will be able to reduce the cost of production and to produce high quality products having a better margin of profit.

Plea for Incentive

Mr Mathur put in a strong plea for the eligibility of the woollen textile industry for the investment allowance which is denied to it even though the cotton and jute industries are allowed this incentive. He felt that there was no reason for according such unfair treatment to the woollen textile industry. In no respect was this industry inferior to the jute industry or the cotton textile industry.

The corporation has decided to collaborate with the UP Export Corporation Ltd through a joint sector project for the manufacture and for the dyeing of carpet yarn at Bhadhoi. Besides being economically viable it will serve the handloom weavers who will be able to obtain carpet yarn on reasonable terms at their doorstep.

Karnataka State Financial Corp.

The resource position of the Karnataka State Financial Corporation was comparatively easier during the year-ended March 31, 1976, according to the chairman, Mr M.K. Ramachandra. The corporation issued share capital worth Rs 75 lakhs including the special capital of Rs 25 lakhs making a total paid-up share capital of Rs 250 lakhs as on March 31, 1976. The amounts sanctioned and disbursed during the year were Rs 9.68 crores and Rs 7.18 crores respectively. With the prior approval of the Reserve Bank the corporation floated bonds worth Rs 220 lakhs during the year under review.

The net profit of the corporation increased to Rs 57.08 lakhes from Rs 51.57 lakhs in the previous year. The corporation continued with its policy of giving special encouragement and assistance to the small-scale sector. Out of a total of 242 applications sanctioned during the year, 201 (83.06 per cent) were from entrepreneurs in the small-scale sector. Loans sanctioned to the small-scale sector amounted to Rs 488.82 lakhs.

An important activity of the corporation during the year was its initiation of industrial potential surveys of various districts of the state. The corporation also participated in industrial seminars aimed at encouraging entrepreneurs to establish units in backward areas. The financial assistance sanctioned for industries in backward areas registered an increase of 24.86 per cent in the year under reference as against 13.25 per cent in the previous year.

Jaya Shree Textiles

Despite the abnormal conditions prevailing in the textile industry, the sales of Jaya Shree Textiles and Industries Ltd, increased to Rs 16.32 crores in the year-ended December 31, 1975 from Rs 15.77 crores in the preceding year. However, working profit declined from Rs 61.53 lakhs to Rs 32.45 lakhs. The directors have skipped the payment of dividends to the shareholders both on equity and preference shares.

The highlight of the year under review was the achievement of a record turnover of Rs 1.33 crores in exports by the company as against exports of the value of Rs 8.45 lakhs in the preceding year. The export of insulators accounted for about 65 per cent of the total insulator exports of this country.

The scheme of amalgamation of this company with the Indian Rayon Corporation Ltd has been approved by the shareholders of both the companies. This amalgamation, according to the directors, will provide adequate resources for the working capital as well as for expansion and would lead to better utilisation of present capacities.

NOCIL

The National Organic Chemical Industries Ltd, recorded sales of Rs 58.23 crores for the year-ended December 31, 1975 as against sales worth Rs 55.05 crores in the preceding year. The net profit of the company dropped from Rs 10.44 crores to Rs 4.39 crores this year.

The directors of the company have recommended a dividend of 12 per cent on equity share absorbing Rs 1.44 crores. This dividend is exempt from the income tax under Section 80K of the Income-Tax Act 1961. The directors have also recommended issue of bonus shares in the ratio of one bonus share for every two equity shares held by the shareholders.

The company, during the year under review, repaid foreign currency loans amounting to Rs 2.51 crores to Shell Petroleum Company Ltd, ICICI and rupee loans amounting to Rs 1.26 crores to IDBI, ICICI, IFC and LIC.

The company exported approximately 775 tonnes of PVC resins and 2 ethyl hexanol at international prices against release orders of the ministry of Commerce. Besides, the company made direct exports to west Asia to the tune of Rs 6 crores. But for the government restrictions, the company could have achieved a higher export turnover.

Mahindra Ugine

At the thirteenth annual general meeting of Mahindra Ugine Steel Company Ltd, for the year ended December 31, 1975, Mr Harish Mahindra, the chairman, welcomed the marger of Bank of Baroda with the company. The consequent increase in deposits to the tune of Rs 8.15 crores has been earmarked for the expansion projects of the company. Meanwhile satisfactory progress was maintained by the company in expanding its capacity of finished tool, alloy and special steels from 24,000 tonnes per annum to 60,000 tonnes per annum. The expansion project is scheduled to be completed by the end of 1977.

The cost of power is an important input in the electric arc furnace industry and it varies from state to state. Mr Mahindra reiterated his plea for restructuring the power tariffs for electro-metallurgical industry in the state of Maharashtra with a view to bringing down the unit cost.

Mr Mohindra complimented the government for taking a sympathetic view of the inherent cost-handicap of the electric furnace process by reducing the effective rate of excise duty from Rs 200 to Rs 50 per tonne. He further pleaded for the elimination of the whole of the balance of the excise duty of Rs 180 on electric furnace products, as they are made out of steel scrap which in its prime condition has already

borne full share of excise burden.

The creation of a separate cell for the mini-steel plants in the ministry of Iron and Steel, according to Mr Mahindra, was a constructive step. This cell would enable the government to devote special attention to the problems of these units.

Rajasthan Financial Corporation

Rajasthan Financial Corporation has been able to make significant progress during the year 1975-76. The gross income and net profit rose to Rs 148.75 lakhs and Rs 58.89 lakhs respectively showing an increase of 33.36 per cent and 40 per cent over the corresponding figures of the previous year.

Loans aggregating Rs 800.47 lakhs were sanctioned in 1975-76 against Rs 705.89 lakhs sanctioned during the previous year recording an increase of 13.40 per cent. There was a substantial increase in disbursements which rose from Rs 283.35 lakhs in 1974-75 to Rs 386.73 lakhs in 1975-76 marking an increase of 36.48 per cent. The gap between sanctions and disbursements has thus been reduced to a large extent.

Out of 289 industrial units financed by the corporation in 1975-76, 267 were small-scale units comprising 92.4 per cent of the total units assisted in the year. Since its inception the corporation has assisted 1788 small-scale units which constitute 90 per cent of the total industrial units financed by it.

The large backlog of 303 loan applications for Rs 13.34 crores as on April 1, 1975 has been reduced to 133 applications for Rs 5.43 crores. Efforts are continuing to clear these at an early date. Assistance sanctioned to units in backward districts of the state during 1975-76 aggregated Rs 445.22 lakhs to 109 units as against Rs 322.05 lakhs to 80 units in the previous year. Thus out of the total loan sanctioned in 1975-76 more than 63 per cent has gone to the units being set up in industrially backward districts of the state.

The corporation sanctioned six loans aggregating Rs 138.34 lakhs in 1975-76 as against four loans amounting to Rs 39.24 lakhs sanctioned during the previous year. The corporation has so far sanctioned Rs 1.93 crores to 12 industrial units under IDA Line of Credit including foreign exchange component of Rs 78.71 lakhs.

Unit Trust

The Unit Trust of India has declared a higher dividend of 8.75 per cent for the year ended June 30, 1976 as against 8.60 per cent paid for the previous year. The trust has also announced a maiden dividend of three per cent per annum on capital units introduced in January 1976.

The sales of units under the 1964 scheme amounted to Rs 20.7 crores during 1975-76 as against Rs 16.7 crores in the previous year. Its repurchases which touched a high of Rs 20.4 crores in 1974-75 declined to Rs 10.9 crores in 1975-76. The trust's sales to non-residents increased to Rs 32 lakhs in 1975-76 as against Rs 17.33 lakhs in the previous year. Also the trust sanctioned financial assistance of Rs 5.60 crores to 39 companies as against Rs 4.80 crores in the previous year.

News and Notes

Ballarpur Industries Ltd propose to acquire about 20 per cent holding of the Borosil Glass Works, a company producing heat resistant glass tubings and rods and scientific apparatus in technical collaboration with Corning Glass Works, New York, USA.

Ballarpur Industries will be acquiring 2,81,063 equity share of Rs 10 each of Borosil Glass from its technical collaborators (Corning Glass Works) which holds about 49 per cent equity shares in this company. With the sale of this block of shares, the holdings of Corning Glass will be reduced to about 29 per cent.

Kothari (Madras) is shortly issuing rights shares, at par, on two-for-three basis worth Rs 1.48 crores. It also proposes to make a public issue of Rs 1.30 crores. The additional capital of Rs 2.78 crores will be utilised by the company for its expansion and diversification programmes.

The Tata Locomotive and Engineering Co Ltd (Telco) has reported higher production of 6069 commercial vehicles during April-June 1976 as against 5628 units in the corresponding period last year. The company hopes to maintain this trend and achieve production of 28,000 in 1976-77 as against 26,000 during the last year. The anticipated additional production of 2000 units would qualify the company for an excise rebate, which will be to the tune of Rs 46 lakhs.

A public limited compaay with an authorised capital of Rs 50 lakhs and 32 private limited companies with a total authorised capital of Rs 1.30 crores were incorporated in the union territory of Delhi during May this year.

Two public limited companies with a total authorised capital of Rs 35 lakhs and two private limited companies with a total authorised capital of Rs 51 lakhs were incorporated in Haryana during the same month.

Capital & Bonus Issues

Consent has been granted to seven companies to raise capital according to the Controller of Capital Issues.

J. Thomas and Co Private limited, Calcutta, has been accorded consent, valid for three months, to capitalise Rs 1.2 million out of its general reserve and issue fully paid preferred ordinary shares of Rs 10 each, founder's shares of Rs 100 each, ordinary shares of Rs 100 each, and deferred shares of Rs 100 each as bonus shares in the ratio of one bonus share for each such share held.

Eskay Electronics (India) Pvt Ltd, New Delhi, has been accorded consent, valid for three months, to capitalise Rs 151,800 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 held.

EID Parry (India) Ltd, Madras, a public limited company registered in the state of Tamil Nadu (Madras) has been granted consent, valid for 12 months to issue equity shares worth Rs 62,821,060, preference shares worth Rs 4 million to the shareholders of EID Parry (India) Ltd, and secured debentures of the value of Rs 6,936,918 in terms of and in accordance with the scheme of amalgamation sanctioned by the High Court of Madras and the High Court of Justice, England.

Madhya Pradesh Audyogic Vikas Nigam Ltd, Bhopal, has been accorded consent, valid for 12 months, to issue debenture bonds of Rs 10 million with the option to retain 10 per cent of the notified amount in the event of over-subscription for cash to the public by a prospectus at Rs 988.50 for a bond of Rs 1,000 each. The bond will pay interest at 6.25 per cent per annum and will be redeemed after 10 years from the date of their issue.

Atul Drug House Limited, Bulsar (Gujarat), a public limited company registered in the state of Gujarat and having a paid up equity capital of Rs 2.2 million, has been granted consent to issue securities worth Rs 15.2 million (bonus shares worth Rs 6.6 million and further cash issue of equity shares worth Rs 9.2 million, valid for three months, and 12 months, respectively.

IDL Chemical Limited, Hyderabad, has been accorded consent, valid for three months, to capitalise Rs 15,716,750 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 each equity share held.

Garware Plastics Pvt Ltd, Bombay, has been accorded consent, valid for three months, to capitalise rupees one million 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 two shares held.

Dividend

(per cent)

Name of the company	Year	Equity dividend declared for Current year	Previous Year
Higher Dividend			
S.L.M. Mancklal	March 76	16	12.5
Bombay Oxygen	Dec. 75	12	8
Same Dividend			
Tube Investment	Dec. 75	10	10
A.V. Thomas	Dec. 75	12	12
Lower Divident			
Travancore Cemend	Dec. 75	Nil	10
Velimalai Rubber	Feb. 76	10	12

COMPANY MEETING

The Tata Iron and Steel Company Ltd.

Chairman's Statement

The following is the statement of Mr. J.R.D. Tata, Chairman of the Tata Iron & Steel Company Limited, for the year 1975-76.

A Set-Back

The sharp set-back in profits suffered by your Company during the past year will no doubt have caused deep disappointment to the shareholders, particularly as they knew only of the high rate of production reported to them through the newspapers every quarter and were unaware of the steep continuing escalation in costs. They may therefore have expected that the results would not be very different from those of the previous year which recorded the highest profit, before and after tax, ever made by the Company.

2. Your Directors realise that the periodical publication of only production and sales figures does not provide an adequate indication of the progress of the Company during the year. If, therefore, it meets with the shareholders' approval, we shall henceforth issue a mid-year report on the performance of the Company and the conditions prevailing in the industry.

Its Causes

3. Although the Directors' Report has briefly indicated that the substantial decline in profit during the year was due to cost escalations beyond the control of the Company, compounded by a recession in demand, shareholders will, no doubt, expect from me a fuller understanding of the causes of this set-back.

4. In comparing the results of the two years, note should first be taken of the fact that, in the year 1974-75, the Company enjoyed for the full year the benefit of the substantial increase in prices sanctioned by Government in October 1973. That increase, which averaged Rs 245 per tonne in our case, resulted in a net accretion to the revenues of that year of about Rs 18 crores before tax and Rs 8 crores after tax.

High Costs

5. In both the Directors' Report and my Statement to the shareholders in July last year, it was pointed out that by 31st March 1975, the above increase in prices had already been almost fully absorbed by cost escalations beyond management's control, mainly in respect of coal, power, fuel and wages. Since then and upto March 1976 works costs escalated further by about Rs 110 per tonne.

Large Inventories

6. To add to our difficulties, the recession in demand during the year resulted in a large increase in our steel inventories, the financing of which alone added more than Rs 3 crores to our interest burden, and for the first time since Independence necessitated the grant of rebates on certain slow-moving categories of steel compensated only partly by the larger tonnages sold through stock-yards at a higher price.

Low Prices in India....

7. I am sure shareholders need no reminder of the fact that year in and year out we have, both in my Chairman's Statements and in correspondence and discussions with Government, pointed out the gross inadequacy of the ex-works prices fixed by Government and argued and pleaded for a realistic pricing policy which would enable this basic and vital industry, not only maintain the efficiency of its plants but also to modernise them as they aged and became obsolete.

8. Mine have been cries in the wilderness except in 1973 when Government did grant temporary relief through a substantial price increase. Over the last thirty years or so, however, the steel industry has consistently been made to charge uneconomically low prices to steel users.

..Compared to those Abroad

9. Let me illustrate the point by some simple examples of the comparative situation in India and elsewhere. The current price of structural sections allowed to Indian producers in both public and private sectors is to-day lower by about 65 per cent than in the UK, 64 per cent than in the USA, 51 per cent in Japan, and 57 per cent than in Australia. In the case of bars and rods the gap is 40 per cent in comparison with the UK, 43 per cent with the USA, 29 per cent with Japan and 38 per cent with Australia, while the ex-works price of plates in India is 56 per cent less than in the UK, 60 per cent less than in the USA, 50 per cent less than in Japan, and 54 per cent less than in Australia.

10. It will thus be seen that the Indian steel industry is compelled to sell its steel on the average at something like half the price earned by the steel industry in other countries, although the capital cost of putting up steel capacity in India is no lower than in those countries, and where higher wages are largely compensated by higher productivity.

11. By permanently denying to the Indian producers, through unrealistically low prices, the means to ensure the efficiency and continuous modernisation of their plants, Government make sure that, over the years, their costs of production will relentlessly rise as a result of the growing cost of maintaining old plants and of their inability to replace obsolete equipment and processes by modern and more efficient ones.

12. If, notwithstanding

its age and lack of modern equipment, our plant continues to produce good steel at near full capacity, it is mainly because of the heavy capital expenditure we have incurred year after year, totalling nearly Rs 200 crores in the last ten years. The fact that a number of units of the plant broke all-time records during the past year shows that it is kept in first class operating condition, and is also a tribute to the skills, experience and hard work of our workers, technical staff and management.

Unfair Burden

13. In the special economic circumstances of India, one could understand that Government, as part of their overall campaign to control inflation, want to keep as low as possible the prices of basic materials or services, such as steel, cement and power, which strongly affect the cost of a host of other products. One can also appreciate Government's need for tax revenues and there could be no objection if the burden placed on the producer on both these counts were a fair and reasonable one. It has however been far from being so in the case of the steel industry, and I submit that the lengths to which our Government have gone in this direction are self-defeating in the long run.

Prices Below Cost

14. Not only is the price at which we are compelled to sell our steel in India about half that of domestic prices abroad as pointed out earlier, but in a substantial number of our products, we are not allowed even to recover our works cost, leave alone their due proportion of overhead costs. It may come as a shock to shareholders to know that in the past year, 450,000 tonnes, or 36 per cent of our total domestic sales, were sold at a loss of Rs 8 crores, excluding depreciation and interest. With these added, the loss was approximately Rs 15 crores.

15. As if this were not enough, on top of the heavy sacrifices the industry is compelled to make by selling its products at uneconomically low prices, Government impose on it the additional burden of ever increasing and now disproportionately large excise duties, which on our own product-mix amount today to Rs 381 per tonne. Can there be any economic justification for such self-defeating policy which cripples the most vital of all industries in the country?

16. When Government built their own public sector plants, which now represent about 70 per cent of the total capacity of the major producers, I had hoped that as steelmakers themselves they would appreciate the imperative need of economic prices in order to ensure that their plants remain efficient and technologically modern over the years. This was a vain hope, for the public sector is also compelled today to sell some of its own products below cost.

17. What do we expect Government to do, faced as they are with economic problems of an admittedly formidable magnitude and multiplicity? We certainly do not ask that they should raise steel prices to the full level prevailing in other countries. We do expect them, however, to cease compelling the steel industry to act as a milch cow for the benefit of other industries and of Government's own steel-consuming departments, either by raising prices to a reasonable extent or reducing excise duties, or both. We do not ask more than that the steel industry be allowed to earn enough to meet its costs, pay moderate dividends, and put enough aside each year to plough back into plant improvements and modernisation.

18. We also expect, as was the case until 1973, that increases in costs beyond the industry's control, particularly those caused by Government's own actions, should be promptly met by an appropriate increase in ex-works prices.

19. I realise, of course, that selling prices to the consumer could not have been increased during the past year when a severe demand recession prevailed, but object could have been achieved by a reduction of, or exemption from, part of the excessive excise duties charged on such basic products as iron and steel, which are the raw materials for many other industries.

Dividends

20. When an increase in steel prices was granted to the industry in October 1973, Government imposed on us the condition that the bulk of the increased revenues should be credited to a fund to be used only for capital expenditure on the plant. The amount so set aside was Rs 6.40 crores in 1974-75, and Rs 5.69 crores in 1975-76.

21. This condition, which lost its purpose from the time that cost increases exceeded the October 1973 price increase, has had the unfortunate and unintended consequence of compelling us to pay a part of the dividends out of reserves. This has this year brought us within the mischief of a new rule framed under the Companies Act, which limits dividends, any part of which is paid out of reserves, either to the average of the dividends of the previous five years or to 10 per cent of the paid-up capital, whichever is lower. Your Directors were thus debarred from distributing in dividends, including dividends on Preference shares, a total amount of more than Rs 4.83 crores. As a result, instead of the dividend of Rs 8.60 per share they intended to declare on Ordinary shares, they have been compelled to restrict it to Rs 7.75.

22. I deeply regret this further disappointment caused to the shareholders who had already suffered severe hardship from the dividend restriction of the past two years.

Bonus Issue

23. While the shareholders will, I am sure, approve of the proposal to capitalise

Rs 12.86 crores of our reserves and convert them into equity capital, they will no doubt wish to know why the Directors have preferred to give effect to it by raising the paid-up value of the existing Ordinary shares from Rs 75 to Rs 100 rather than adopting the more usual method of issuing one new share for every three held.

24. We have recommended the former method for a number of reasons:

(i) It will be much simpler in that it will only require the over-stamping of every existing scrip instead of issuing new certificates to every share holder.

(ii) It will avoid the need to issue fractional coupons to owners of a single share which they would then have had either to sell, or to consolidate into one share by buying two more coupons. Instead, every holder of a single share will automatically receive an exactly proportionate bonus element of one-third of his shareholding without the trouble and expense of buying and consolidating coupons.

(iii) It will be much cheaper because of the saving in paper, printing and postage.

(iv) It will be quicker because arrangements can be made for the scrips to be over-stamped without delay on mere presentation.

(v) It will bring the Ordinary shares of this largest of all the companies in the private sector in line with one of the two common and convenient share denominations normally in vogue in the country.

(vi) Finally, it will avoid the need to issue a further 1.7 million shares which by adding to the outstanding floating stock could, in certain circumstances, act as a depressing factor on market values.

I trust, therefore, that shareholders will approve of the Directors' proposal.

Prospects

25. Having read, I hope with patience and understanding, this long exposition of the past and present circumstances of the Company's set-back in the year under review, shareholders will no doubt want some reassurance as to our immediate prospects.

26. Considerable improvements in the supplies of coal, power, transport, and in industrial peace in the country, resulting from the various measures taken by Government since the declaration of the emergency, have undoubtedly helped to increase or maintain production in all industries. In our case, however, with full production already achieved, with costs under tight control and inflation checked, prospects of any substantial improvement in our fortunes in the current year will depend on a number of favourable factors materialising: first and formost, the end of the recession, helped, hopefully, by the impact of another favourable monsoon and the injection of substantially larger plan outlays; second, the long overdue increase in steel prices which such improvement will make possible, particularly on those categories the prices of which today do not even meet cash costs; and third, a further increase in exports.

27. With the world's economy emerging from the recession which plagued it during the past two years, the international demand for steel is bound to increase and with it the opportunities for exports from India. Shareholders will have noted that even in the past recessionary year our Company booked substantial orders which unfortunately could not be fully met owing to shipping difficulties. So long as domestic prices in India are kept at uneconomically low levels, I hope that we will be enabled to make up the loss of revenues thereby suffered by us through larger exports. I can assure shareholders that every effort will continue to be made to raise our profit earning potential at both the cost and revenue ends of our operations.

White Paper on Steel

28. The White Paper on the steel industry recently presented to Parliament by the Ministry of Steel and Mines is an important contribution to long-range economic forecasting. Considerable, and perhaps undue, interest has been aroused by the tentative estimate that India by the year 2000 might need a total capacity of 75 million tonnes of ingot steel against the current capacity of 12 million tonnes and production of 8 million tonnes. Given India's then population of 1000 million, this may not be an over-ambitious target in the light of her technological, natural and human resources, however, staggering the magnitude of the capital investment that would be required. Taking into account not only the cost of constructing new plants and expanding existing ones but also that of the considerable infrastructure that must simultaneously be built to supply them with raw materials, power, transport and the like, the total cost might be of the order of over 50,000 crores in terms of today's rupee, and, say, 85,000 crores at its average value over the next twenty-five years.

29. The key questions which would have to be answered would be: Could the steel industry be allowed to pre-empt such a large part of total investible resources over the competing claims of other pressing priorities? Would the steel-consuming sector of the economy be able to absorb such a flow of steel? Indeed, if so much capital is taken up by steel itself, will we have sufficient capital left for the growth of the steel-consuming industries themselves? Would it be wise to plan for substantial exports considering the low capital output ratio of steel when the export of products made of steel could earn so much more foreign exchange and steel-consuming industries generate so much more employment?

30. Doubtless, questions such as these will be examined in depth; for the time

being, we may welcome this valuable exercise in long-term planning and the fact that it has drawn attention to the implications of large-scale and rapid expansion of steel capacity, and the need for increasing the internal cash flow of the industry, to which I have myself repeatedly referred in the past and again in this Statement.

Conclusion

31. I regret that I have, on this occasion, dwelt at such length on one subject, but I felt it my duty to provide shareholders with a full understanding of the operations of the past year, the reasons for the set-back suffered, the situation in the industry and the prospects for the immediate future. If my remarks sound pessimistic to some, that was certainly not my intention which was only to present a true and realistic picture.

32. I remain optimistic in regard to our Company's long-term future, subject only to Government policies, particularly in regard to steel prices. While I have regretted that the policies followed up to now have been self-defeating and have seriously impeded over the years the progress of our Company, I believe that the hard economic realities of this tremendous country of ours are better understood today than they have ever been before. Winds of change have been blowing around us, sweeping away some of the old ideas and rigid formulae which have held back progress in the past. There is a new urge to achieve results and to avoid delays and unnecessarily complicated procedures. We might, perhaps wish the process to be an even more rapid and profound one, but at least it is in the right direction. There is, finally, a new insistence on hard work and discipline and a widespread response to it which has already made industrial life easier and more productive. The economy of the country cannot but benefit from the present trends.

33. So far as your Company is concerned, it is in many ways in better shape than it has been for a long time. As I have said earlier, our plant, though old and in parts obsolete, is in excellent condition and capable of sustained production. The morale of our organisation remains high and has, if anything, been strengthened by the difficulties of the past year. Our financial position remains strong with a satisfactory debt/equity ratio.

34. I cannot prophesy what action Government will take, nor when it will be, in regard to steel prices to which I have devoted so much of my Statement, but I do know them to be fully aware of the urgent needs of the industry in both sectors, and I can only hope that the right action will be taken soon, as market conditions improve.

35. It remains for me to express the Board's and, I am sure, the shareholders' sincere appreciation of the excellent performance of our workers, technicians and staff at all levels, at Jamshedpur, at the collieries, at the mines and elsewhere. As I have often said before, they remain our greatest asset and our best hope for the future.

J.R.D. Tata
Chairman

Bombay, 25th June, 1976

Note. *This does not purport to be a record of the proceedings of the annual general meeting of the company.*

RECORDS AND STATISTICS

Penal rates of interest

THE RESERVE Bank has issued to all scheduled commercial banks a set of guidelines governing penal rates and service charges. The guidelines are based on the recommendations made by the committee appointed by the Reserve Bank in March 1976 with Shri C. P. Shah (Chairman, Bank of India) as Chairman. The other members were Shri K. K. Pai (Chairman, Syndicate Bank), Shri Inderjit Singh (Chairman, Punjab & Sind Bank Ltd), Shri N. R. Kulkarni (Chief Officer, Commercial and Institutional Banking, State Bank of India), Shri S. H. Cassim (Assistant General Manager, Operations, Central Bank of India), Dr M. V. Patwardhan (General Manager, Bank of Maharashtra) and Shri S. N. S, Raghavan (General Manager, Credit & Marketing, Grindlays Bank Ltd). Shri S. R. Avadhani (Additional Chief Officer, Department of Banking Operations & Development, Reserve Bank) and Shri V. M. Sunder Raj (Director, Credit Planning & Banking Development Cell, Reserve Bank) were the observers.

The committee's report was submitted in April 1976. The governor indicated at his meeting with the chief executives of major banks at Calcutta on May 7, 1976 that the recommendations of the committee were broadly acceptable to the Reserve Bank.

The guidelines are broadly as follows:

Circumstances under which penal rates of interest could be levied by banks and the justification for such levy

Penal rates cannot be objected to in principle and will have to be accepted as a justifiable part of the interest rates policy of banks, as long as they are applied with selectivity and discrimination. Broadly, the areas where banks may be justified in charging penel rates are default in repayment of loans, irregularities in cash credit accounts, non-submission of stock statements and other financial data, default in borrowing covenants, payment/non-acceptance of demand/usance bills of exchange on presentation/due date, and excess borrowings arising out of excess current assets (as recommended by the Tandon Committee).

Penal rate should not be regarded as a revenue raising measure but rather as a measure to enforce discipline in the conduct of the account. The practice in some banks of charging penal rate in lieu of commitment charge is clearly not justified. Similarly, if a borrower does not comply with the insurance condition of the advance, the bank concerned with its insurable interest should be in a position to take out the cover at the cost of the borrower instead of subjecting the borrower to repeated levy of penal rate which in any case cannot be a substitute for the insurance cover.

While the broad areas where banks would be justified in charging penal rates are indicated above, the policy of levying penal rates should be implemented with discrimination and selectivity. Unless a bank's decision to levy penal rate is preceded by consideration of all the attendant circumstances, the system of penal rate wauld become arbitrary. In order to avoid indiscriminate levy of penal rate, the decision on penal rate shoud be taken at a fairly high level in each bank. The decision-making levels should be determined by each bank in the light of its own administrative structure.

Levels at which penal rates should be charged.

Generally penal rates may be charged at rates varying from one per cent to 2.5 per cent over and above the normal rates applicable to advances subject to the condition that under no circumstances should the penal rate exceed two per cent over the ceiling rates on advances prescribed by the Reserve Bank for various classes of banks (i. e., 16.5 per cent or 17.5 per cent p. a. as the case may be plus 2 per cent). However, separate treatment may be given for certain categories of advances as indicated below:

On all overdue inland bills, the overall rate of interest, inclusive of penal rate or overdue interest, should be 18.5 per cent.

Exemptions

All small loans upto a credit limit of Rs 5,000 and all advances made by public sector banks under the Differential Interest Rates Scheme to selected low-income groups, will be exempted from the levy of penal rate. Such exemption will also apply to agricultural advances and loans (excluding plantations).

In the case of small-scale industrial units with credit limits of over Rs 5,000 but less than Rs 2 lakhs, the penal rate should not exceed 1.5 per cent, provided the overall rate of interest, inclusive of penal rate, does not in any case exceed the ceiling rates of interest prescribed by the Reserve Bank. In the case of small-scale industrial advances to units having limits of Rs 2 lakhs and over, the penal rate may be on the scales indicated earlier.

As for direct agricultural advances with credit limits of over Rs 5,000 (excluding plantations), banks should give a time of at least three months to the borrowers for making repayments of the loans or of instalments against advances granted to them. If banks are not satisfied with the reasons for default even during the extended period, they may charge penal rate on the advance. However, penal rate should be charged only on the overdue instalments and not on the total outstandings, unless of course the entire loan is recalled.

Natural Calamities

Where the farmer borrower is not in a position to repay the loans on account of natural calamities, such as drought, flood and famine or on account of unforeseen contingencies such as death or physical incapacitation of the borrower or unusual circumstances beyond the control of the borrower, banks should rather reschedule the repayment instalment than charge penal rate. The penal rate for such agricultural loans with credit limits of over Rs 5,000 (excluding plantations) should not be more than 2.5 per cent over and above the normal rate and the overall rate of interest, inclusive of penal rate, should under no circumstances exceed the ceiling rates of interest prescribed by the Reserve Bank.

The penal rate on plantation loans may be on the scales indicated earlier—at rates varying from one per cent to 2.5 per cent over and above the normal rates applicable to advances subject to the condition that under no circumstances should the penal rate exceed two per cent over the ceiling rates on advances prescribed by the Reserve Bank.

The Reserve Bank has drawn the atetntion of banks to the view taken by the committee that, where penal rate is required to be charged on defaulted loan instalment or irregularities, it can serve as a deterrent measure only to a limited extent and that it would be essential to enquire into the circumstances under which the default or irregularity continues. Penal interest rates would not be relevant in the case of reconstruction or nursing assistance to sick units.

Export Credit

As regards export credit, the Reserve Bank has prescribed that, where pre-shipment credits or post-shipment credits (other than those given on deferred payment terms for a period exceeding one year) are extended beyond the periods stipulated for ceiling rates, the banks may charge their normal rate of interest for the extended period but not less than the minimum lending rate. The scheme of penal rate recommended by the committee will not be applicable during such extended periods. In this connection' it has already been clarified that banks should charge a reasonably low rate of interest for the extended period, taking into account the priority of export credit. This should be kept in view while applying over due interest on post-shipment bills negotiated by banks and over due instalments related to post-shipment credits on deferred payment terms. Where packing credits are availed of but the exports do not materialise, banks should charge a suitable rate higher than their normal rate of interest from the date of the advance. The penal rate in such cases may be on the scales indicated earlier.

Service Charges

As regards service charges on borrowal accounts, the committee has classified them into two categories: (a) reimbursement of actual 'out-of-pocket' expenses incurred by banks, such as godown keeper's salary, travelling or conveyance expenses of bank's inspectors or field officers, legal charges, stamp duties, etc, and (b) levy of special fees or service charges either at a flat rate or on a percentage basis. There is no objection to banks recovering actual out-of-pocket expenses from borrowers in accordance with the existing rules or guidelines. As regards special fees or service charges levied at a flat rate or on a percentage basis, the committee proposes to examine this issue further and submit its recommendations later. In the meantime, no bank should increase its scale of such service charges prevailing before the ceiling on interest rates was prescribed by the Reserve Bank.

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Jimmy Carter

THE DEMOCRATS in the USA have nominated Mr Jimmy Carter (Full name: James Earl Carter Jr) as their candidate for the presidency in the forthcoming election. Those in this country who have followed the Democratic primaries closely have not been surprised by this nomination. This former governor of Georgia who was relatively unknown both in his country and abroad and has emerged from "laughable obscurity" seems to fit in with the post-Nixon era. His religious background and his stress on integrity in the highest seat of authority in the USA have won him many admirers.

The Watergate episode and the CIA disclosures have made almost every American citizen sit up and think if the Republicans under Messrs Nixon and Ford had not bungled both in national and international affairs. In the words of Mr Humphrey, former vice-president, "The Republicans took crime off the streets—and put it in the White House." Mr Carter has not given any profound answers to many of the ticklish questions. But his broad smile coupled with frequent references to God and Bible has won him spontaneous support from blacks, blue-collar workers and women. For an answer to any question, he relies on his religious background. And this has turned out to be a strong point in winning over the common people. In Mr Carter they see a man of God in whom they can put their faith.

Mr Carter has made it known that no president who tells a lie, has the right to hold on to this august office. In a recent interview on television, Mr Bill Moyers asked him bluntly: "If someone is able to prove that you have told a lie, will you resign from the presidency, if you are elected in the next election?" Mr Carter unhesitatingly replied in the affirmative.

And there is clear indication that the presidential nominee of the Democrats wants a clean government—a government which does not believe in spying on its own people or the other peoples. For this, Mr Carter—if and when elected—will have to clean up the bureaucratic machinery in Washington. Some critics have openly accused him of being ignorant of the political game, both at the national and international levels and they feel that once in the White House, he will find that his Bible and his God will not be able to guide him in the day to day affairs.

Of all the post-World War II US presidents, Mr Carter is fond of the late Harry Truman who, in his view, did not tell a lie during his presidency. It may be stated that the responsibility for unloading the atomic bombs on the Japanese cities in 1945 was shouldered by President Truman. From this the conclusion has been drawn that Mr Carter will not shirk the responsibility to make use of atomic weapons where the interests of the American nation are involved.

That Mr Carter has the solid support of the blacks has become apparent in recent weeks. The keynote address of black Congresswoman Barbara Jorden at the opening session of the Democratic National Convention was rightly described by commentators as "electrifying and dynamic". Said she: "We believe in equality for all and privileges for none. We believe that the people are the source of all governmental power, that the authority of the people is to be extended not restricted. Let us heed the voice of the people and recognise their common sense. If we do not, we not only blaspheme our political heritage, we ignore the common ties which bind all Americans".

In selecting Senator Walter Mondale of Minnesota as his mate in the presidential election, Mr Carter has tried to woo the liberals in the Democratic

Party whose support to him has been rather hesitant. Senator Mondale, aged 48, has acquired rich experience in problems of health, nutrition, housing and care for the aged. Mr Carter and Mr Mondale have one thing common; they are both dark horses.

In the Republican party, the tussle between Mr Ford and Mr Reagen is very keen, with the former having only a marginal lead over his rival. But against Mr Carter, even President Ford may not be able to carry the American nation with him. A historical study has shown that in the US presidential elections, the sitting president has high chances of election if the economy is on the upswing. There is no doubt that the US economy is currently picking up but the odds against President Ford are indeed formidable. The strongest point which is likely to operate against him is his unethical pardoning of Mr Nixon. The American people are not likely to excuse him for this serious lapse. Also, his has been a lustre-less presidency with hardly any positive gains to boost the ego of the average American. And his recent reshuffle of the senior colleagues and a lame-duck Vice-President (Rockefeller) who is not going to be his mate in the forthcoming election if he is nominated by the Republican party, point to his ineptness in the political game.

The interest of the developing countries in the US presidential election has been heightened in recent years because of the somewhat unhelpful attitudes of the Nixon and Ford administrations. During the past decade, the economic assistance as a percentage of GNP provided by the USA to the third world countries has been steadily declining. Mr Carter's election to the US presidency is expected to improve the prospects of increased assistance as he does not consider the demands of the developing countries as unreasonable. In his address to the national convention of the Democratic party, he said: "To the nations that seek to lift themselves from poverty, I say that America shares your aspirations and extends its hand to you."

The problems of storing foodgrains

THE STOCKS of foodgrains rising to 18 million tonnes in the country at present —partly built up through imports over the last one and a half years and to a great extent accruing from good kharif as well as rabi crops during the last agricultural year ending June 30—should, indeed, help in not only tapering of imports during the current year but also in maintaining stability in the prices of foodgrains. It is too early to express a firm opinion on the prospects of the next kharif crop as monsoons have just gathered momentum and also there are reports of inadequacy of rains in Orissa, Karnataka and Kerala. But even if the next kharif crop turns out to be normal, the easy foodgrains supply position at present in the open market, which has led to the sales from the fair-price shops going down substantially in the past several months, should help in augmenting the stocks further after the kharif harvest. Although much depends on the progress of rainfall, the easier availability of other essential farm inputs, namely, improved varieties of seeds, fertilizers, pesticides, etc, can surely be expected to yield at least a normal kharif output.

This situation apparently has emboldened the government to build up a sizeable buffer stock of foodgrains—at least of the order of 12 million tonnes, after taking into consideration the likely withdrawals from the stock in the lean months. This is the most significant achievement on the agricultural front right since independence, as the country was never so well placed all these years in regard to food supplies as at present. There, however, is no room for complacency. Efforts at agricultural development, particularly in the field of expansion of irrigation facilities as expeditiously as possible, have to be continued relentlessly so that a lasting solution of our food problem can be ensured.

important question

Along with the above efforts, another important aspect of the issue that now requires serious thought is whether while maintaining a sizeable buffer stock, we should remain content with the conventional methods of collection, storage and distribution of foodgrains which have been followed hitherto or should move vigorously towards modernising them.

Practically, the entire movement of foodgrains in the country at present, whether imported or procured indigenously, is done in gunny bags. So far as storage is concerned, just about five per cent is done in bulk and the rest approximately 95 per cent in bags. This system has continued because of various reasons. Mechanised handling has not been encouraged because of the abundance of manual labour and the easy availability of gunny bags from indigenous sources. The economic standards of our people also being low, their purchases are in small quantities —on a weekly or fortnightly basis—for which gunny bags have been found quite suitable. Bulk supplies are being made only to the large-sized flour mills or bakeries the requirements of which form only a small percentage of the total needs of the country.

With growing urbanisation and changing food habits—though slowly—the situation, however, is now altering significantly. This should be evident

from the steady upward trend, even in normal years, in the supplies being arranged for the fair-price shops. Further, with buffer stock operations, we will be obliged to preserve foodgrains from deterioration over longer periods than has been the case hitherto. Storage in bags is said to preserve the quality of grains for not more than a year—in the damp areas for not even more than ten months. For the successful operation of buffer stocks, this period is hardly helpful.

Even from these viewpoints alone, the case for thinking in terms of bulk handling and storage of foodgrains is quite strong. Through bulk storage, foodgrains, experts opine, can be preserved easily for three—in some cases even up to five—years. This is because fumigation can be easily done directly on the grain. The consumption of pesticides too goes down considerably. the loss of grains in bulk storage is said to be just about one-fifth of that in bagged storage, for not only rodent, vermin and bird control is very effective in the former case but,also pilferage is much more difficult than in the latter case. Transit loss too is reduced very considerably. Among the other advantages of bulk storage compared to bagged storage, mention may be made of the much more effective use of the storage space, the land requirements going down by nearly 60 per cent, and obviation of large expenditure on gunny bags.

initial investment

The initial investment on creating bulk storage capacity, of course, is much higher than in the case of conventional type storage. But the above advantages reduce the operational costs very significantly. According to one estimate, the operational cost per tonne in the case of bulk storage comes to about Rs 70, as against slightly over Rs 77 in the case of the conventional system. Both these estimates exclude the cost of gunnies required at the final stage of distribution of grains.

Some efforts have been made in the recent past by the Food Corporation of India to introduce bulk storage in the country. Several silos as well as flat-bed bulk warehouses have been built at various places. But, as mentioned earlier, this capacity is just about five per cent of the total foodgrains warehousing capacity. in the country. The progress has been meagre as yet for various reasons, including the preference till now for conventional type storage, paucity of funds and the lack of supporting haulage facilities. It is time that attention is paid to attune railway and road movement facilities to bulk storage. The efforts have to be coordinated if significant successes are to be achieved. The global experience is a clear indication of this.

Making export assistance attractive

IN A STUDY entitled, "Export and Production Perspectives: 1980-81" issued recently, the Federation of Indian Chambers of Commerce and Industry (FICCI) has analysed the various schemes of assistance that are available to exporters and has made some suggestions for making them more effective. These schemes include cash assistance, import replenishment, duty drawback, supply of inputs at international prices, and concessional export credit. The FICCI however says that some of these measures "only look like incentives and concessions", that they are "an attempt to counteract impediments which policy measures themselves impose", and that most of them are available in almost all other countries and therefore do not provide any additional benefits. Nevertheless, the fact remains that these schemes have certainly helped our industries to improve their competitive capacity and sell their products even in the distant and difficult markets of the world.

The federation has observed that the scheme of cash assistance needs to be suitably modified so as to make a greater impact on export promotion. It has suggested that this should be made available to exporters "immediately on undertaking the export" and that the amount should be disbursed through the banks on the basis of adequate proof of export. Even if the government agrees to this procedure, the problem remains of fixing the rates of assistance at realistic levels and revising them from time to time, depending on the international market conditions. For this purpose, the federation has suggested that a small permanent committee should be set up consisting of officials from various ministries, particularly Commerce, Finance and Industry and also exporters. But a committee to review cash assistance is already functioning.

exporters' representation

The latest annual report of the union Commerce ministry says: "The need to consider modifications in the levels of cash compensatory support on exports of different export products on account of developments taking place from time to time in the international sphere and also in the domestic market is considered by a high level standing committee, constituted last year, on which representatives of the ministry of Finance, DGTD and CCI & E are represented". Does the federation want another committee to decide cash assistance? It says that exporters should also be represented on this committee. But which exporters ? This type of assistance is available to a wide range of goods including engineering, chemicals and allied products, synthetic fabrics and garments, marine products, jute goods, processed foods, and so on. How does the federation want to select the exporters' representative on this committee?

As regards the payment of duty drawback, the federation points out that this scheme does not confer substantial benefit on exporters. In 1975-76 customs and excise duties together amounted to Rs. 4750 crores, about 20 per cent of the cost of industrial production, though this percentage may be higher in respect of some export commodities. But only a part of this tax becomes eligible for refund.

comprehensive coverage

FICCI has suggested that the amount of drawback should be comprehensive enough to include not only customs and excise duties but also other indirect taxes like sales tax and octroi. But this proposal cannot be implemented until the entire structure of direct taxation is reviewed. The federation has said on page 11 of the study that the value added tax is "an excellent system under which the full impact of indirect taxation can be ascertained and completely made good". But on page 37 it has observed that the value added tax which has been adopted by many countries will provide additional benefit to export trade "if found feasible and useful in our conditions". It seems therefore that the federation has not really made up its mind about the suitability of this kind of tax to Indian conditions.

The latest annual report of the union Commerce ministry gives the impression that the drawback scheme is being implemented smoothly. It says that the scheme plays "an important role in the promotion of exports", that a sum of Rs. 60 crores was sanctioned as drawback to exporters during 1974-75, and that the proforma for the fixation of provisional rate of drawback has been simplified. The Inter-Departmental Drawback Standing Committee met seven times during 1974-75 and considered several aspects of this scheme. It now covers almost all export commodities and includes nearly 700 items where "all industry" drawback rates are available. Meetings are also held with export promotion councils and trade organisations before the revision of the rates. But FICCI has observed that the mode of payment of the duty drawback is "extremely complicated and time-consuming". It may not perhaps be possible to evolve a scheme of drawback which will be entirely free from all drawbacks. But the government should at least ensure that the payment is made to exporters as promptly as possible.

India has achieved an impressive rate of growth in exports in recent years. The annual compound growth rate is estimated at 7.2 per cent in 1970-71 and 20.4 per cent in 1975-76. In terms of value, exports rose from Rs. 1535 crores in 1970-71 to Rs. 3863 crores in 1975-76. But it is significant that our share in world exports fell from 1.02 per cent in 1965 to 0.72 per cent in 1970 and 0.53 per cent in 1975. The federation has estimated that the growth in exports in the past five years was composed of 84 per cent increase in prices and 18 per cent expansion in real terms. "The growth in export earnings," according to the Federation, "was largely a reflection of the price boom which had overtaken the economy. The expansion in the quantum of exports was small and contributed less than one fifth to the additional export earnings in 1970-75". The government of India therefore should review the export assistance schemes and make them more attractive and effective. But what is even more important is to make the policies in regard to licensing and taxation really export-oriented in order to strengthen the capacity of our industries to compete successfully in the foreign markets.

Holding the price line

THE UPWARD trend in the index for wholesale prices (base 1961-62=100) by about four per cent in two months has given rise to fears that inflationary pressures have been re-asserting themselves and the negative growth rate in inflation achieved since September 1974 might be reversed. The rise in wholesale prices in the past few weeks has taken place mainly in pulses, edible oils, cotton and sugar due to apprehensions that the delayed onset of the monsoon might adversely affect the output of food and commercial crops in the kharif season. An analysis of the indices for the past twelve months clearly shows that the drop in the index for all commodities to 296.8 on June 19, 1976 from 312.9 on June 21, 1975 was on account of the food group which declined to 323.7 from 371.5 in the same period. There has, of course, been a sharp rise in fibres to 293.3 from 239.4, though oilseeds have not registered a net rise in 12 months, the index being actually lower at 284.3 against 342.0. But in the past one month the index has risen in respect of oilseeds sharply by 27 points. The index for finished goods has risen marginally in 12 months to 242.2 from 240.6, the increase being due to metallic, non-metallic and chemical products.

The changes in the components of the index for all commodities clearly indicate that a plateau has been reached in respect of finished goods based on raw materials other than agricultural products and the attack on inflation can be successful only with the maintenance of agricultural production at high levels. This conclusion is also borne out by the changes in indices in 12 months ended December 1975. During this period the drop in the index for all commodities

to 291.1 from 315.9 was brought about by a decline in the food group index to 320.3 from 367.9 and in industrial raw materials to 256.8 from 321.3. In the latter index fibres and oilseeds recorded a big drop, with oilseeds particularly declining abruptly to 275.7 from 410.8. Will it therefore be correct to presume that a disturbing situation has arisen and inflation will take place at annual rate of 24 per cent and an "inordinate" increase in money supply has had an upsetting effect?

world developments

It will not be correct to arrive at any definite conclusions on the basis of recent developments as the government is in a better position to tackle price situation firmly than before and achieve satisfactory results in a short period. It may not be justifiable however to think that prices can be rolled back to the levels prevailing in 1972 or an upward rise in prices can be prevented even if imports were liberally permitted. It is here that the developments in the world situation have a vital bearing on the internal price structure. There has latterly been a sharp rise in world prices for metals and many other commodities and severe droughts in western Europe and parts of Soviet Union have seriously affected the output of foodgrains, oilseeds and beet sugar. There has been a skyrocketing of international prices for coffee, oilseeds and to some extent even foodgrains. What are the measures that should be adopted in the present context to check a continuing rise in prices and is there any need to adopt new anti-inflationary monetary measures?

Fortunately, the Food Corporation and other state agencies are having at their disposal huge quantities of foodgrain. The outstanding food credit on July 2, 1976 was Rs 2,271.32 crores which suggests that the buffer stocks were around 17 million tonnes. Even if the offtake through fair price shops increases to 1.5 million tonnes every month the stocks can come down to only 10 million tonnes by the end of November by which time a clear picture will be available of the yield of kharif crops and the prospects for rabi crop. It is unlikely however that there will be such a big increase in the offtake through fair price shops as sizeable quantities have yet to be procured out of the bumber kharif and rabi crops of the last agricultural season. If procurement purchases were slowed down and there were larger issues through fair price shops in deficit areas, food prices can be kept down at reasonable levels.

With the new techniques adopted for raising food crops even a sizeable shortfall in rainfall cannot affect seriously the yield of kharif crop. The latest reports about rainfall have also been satisfactory. Again, even an output of 108 million tonnes cannot have undesirable consequences as the country's needs are only around 108/110 million tonnes. If buffer stocks decline in the next few months they should rise again later by the middle of next year and any significant change may not be recorded. It is in this respect that the developments in the food situation in the current agricultural season have great importance.

It is imperative, however, that there should be a more effective policy in regard to the raising and marketing of commercial crops. The bumper yield of oilseeds in the last season encouraged a sense of complacency and it was not considered necessary to maintain sizable buffer stocks. The support operations in groundnut in Gujarat particularly could have been more effective and exports should have been permitted only after building up fairly large stocks of edible oils from internal sources. In the light of recent developments, violent fluctuations in the prices of oilseeds can be prevented only if buffer stocks of 100,000 tonnes of oils are maintained. The outlay on this account will not be more than Rs 75 crores, even if costly imported oil has to be purchased. If a nucleus of this dimension can be built up it will be possible to effect sales even on a subsidized basis in particular stages and recoup the losses over a period by effecting purchases when prices decline internally and internationally.

In respect of cotton it has not happened in the recent past that the trade and even mill managements should have gone so seriously wrong in their estimates of the 1975-76 crop. With slump in prices for long staple cotton in the latter half of 1975, sizeable exports of short staple and long staple varieties were permitted. It turned out later that the crop was not so large as expected earlier and the monopoly procurement scheme in Maharashtra also had a complicating effect as the yield was satisfactory only in this region while the decline came about in other important areas such as Gujarat, Andhra Pradesh and Tamil Nadu. With high world prices and a shortage within the country, prices have risen awkwardly in the past few months.

Even if imports could be secured they will be helpful only in preventing a further rise in prices. Clearly, available supplies have to be strictly rationed with even a reduction in the output of varieties of cloth which consume larger quantities of cotton. As heavy stocks of controlled cloth are lying unsold the manufacture of these qualities can be suspended or reduced drastically for some months as cotton growing in irrigated areas has been quite efficient and the present high prices will have a stimulating effect. The new crop may be around 6.5 million bales if not more. If weather conditions are favourable the objective should be to achieve an output of 7.0 million bales. Arrangements may have to be made for sizeable imports. What is more important is a decision on buffer stock operations in cotton on a national and not regional basis.

The increase in sugar prices is due to a big rise in exports and a drop in output in the current season by nearly 550,000 tonnes from the level of 1974-75. The situation can be kept under control with postponement of shipments by 200,000 tonnes in the next four months and releasing the quantity for internal consumption. Without releases of 350,000 tonnes every month during the festival season an undue rise in open market prices cannot be prevented. Simultaneously, immediate decision will have to be taken in respect of the fixation of levy sugar prices for the next season and rebates in excise duty for excess production.

The availability of steel, cement, chemicals and fertilisers is adequate and with no deterioration in the power situation exports of steel and cement can be sustained at the present rate. There can also be a pruning of imports of fertilisers as additional capacity is being commissioned and the existing units also are operating more efficiently. The money supply factor is not thus so important as the grip on agricultural production and policies for maintaining buffer stocks of commercial crops and raising their output. With effective checks on the grant of credit against commercial crops in short supply, and prudent arrangements for import by using available foreign exchange resources, the good work of last two years can be continued without any interruption.

CAPITAL'S CORRIDORS

R. C. Ummat

Concern over price level

A GOOD deal of concern is in evidence on the part of the central government over the recent uptrend in prices, particularly of foodgrains, vegetable oils, sugar and cotton. Although the wholesale prices index currently continues to rule marginally lower than the last year's level, it started moving up in the beginning of April and has already registered since then an increase of slightly over 8 per cent. High level discussions have started with a view to identifying the precise cause for the rise in prices so that a new package of measures to correct the situation can be finalised expeditiously.

Meanwhile, the union minister for Agriculture and Irrigation, Mr. Jagjivan Ram, in a letter to the state chief ministers, has called for drastic action against unscrupulous traders whose activities are said to be in no small way responsible for the current rise in the prices of foodgrains and such other essential commodities as vegetable oils and sugar. The state governments have been advised to take action against such traders under MISA, DIR or the Essential Commodities Act.

unexplicable rise

The ministry of Agriculture feels that with a record production during the last agricultural year ending June 30, which has enabled the government to procure nearly 12.5 million tonnes of foodgrains—an unprecedented level of procurement—there is absolutely no cause for the current rise in the prices of cereals. It is pointed out that as a result of easy supply position in the open market, the off-take of foodgrains from the public distribution system had declined considerably in the recent months. It is, however, feared that owing to the fall in the off-take from the public distribution system, this system might not be now functioning effectively in some states. The state governments, therefore, have been advised to take expeditious steps to energise the system so that more foodgrains can be issued through it in an effort to contain prices.

unprecedented output

On the basis of market arrivals and the reports from the state governments, the ministry thinks that the output during the agricultural year just ended has been of the order of over 118 million tonnes. This level of output and the exceptionally good procurement should support the contention of the government that the current uptrend in prices of foodgrains is unwarranted. But a significant point that appears to have been ignored is that the pace of arrivals in the market as well as the procurement figures for the year are not necessarily a true indication of the output. This year, undoubtedly, was an exceptional one from various points of view. If the market reports are any indication, the agriculturists, particularly the smaller ones, unloaded their production in the market in a large measure not necessarily because they had sizeable disposable surplus which they wanted to cash in to meet their pressing requirements for funds, but also because they were afraid of being caught on the wrong foot by the official machinery and wanted to avoid unnecessary harassment at the hands of the over-enthusiasts among the officials who have not refrained from invoking at the slightest pretext the wide powers vested in them. This has vitiated, to some extent at least, the supply position in the open market which has been allowed to function after the reversal in 1973 of the experiment of taking over the wholesale trade in foodgrains by the government in the previous year.

duty withdrawn

So far as edible oils are concerned, the government has not only imposed a ban on the export of hand-picked superior variety of groundnuts, which was the only variety allowed to be exported, but has also asked the State Trade Corporation to import sizeable quantities of edible oils—palm oil, rapeseed oil and soyabean oil. It has been further decided to withdraw the import duty on edible oils with effect from August 1, which was 30 per cent in case of rapeseed and palm oils and 15 per cent in the case of soyabean oil. The Reserve Bank of India too has raised the margins for grant of credit against oils and oilseeds.

The STC Executive Director, Mr Z. K. Joseph, told newsmen last week that even though the world prices of vegetable oils had shown an uptrend recently, the imported supplies to be made available to vanaspati manufacturers were proposed to be maintained at the present levels; the STC had no intention of raising them. Arrangements, he added, were being made to supply per month 20,000 tonnes of imported oils to vanaspati manufacturers, as the government has stipulated that they have to use 50 per cent of these oils in their production. The STC presently is holding a stock of 46,000 tonnes of imported oils, of which 20,000 tonnes have been committed and are expected to be delivered to the industry by August 15. Import contracts for another 79,000 tonnes have been finalised. Nearly 59,000 tonnes, out of the newly contracted quantity, would be available for shipment by September 15.

Mr. Joseph clarified that exports of groundnut oil by STC a few months ago had been of the order of just 5,000 tonnes, which too were effected as a price support measure since the prices of groundnut oil had gone down very markedly—to below Rs. 4,000 per tonne.

The imported oils at Rs. 5,000 per tonne, Mr. Joseph stressed, would be costing much less to vanaspati manufacturers compared to the prevailing price of groundnut oil which was over Rs. 6,400 per tonne. This should help in bringing down the price of vanaspati.

In regard to vegetable oils also, it appears that the role of an important factor in the recent uptrend in their prices has not been correctly appreciated by the government. It is the decision a few months ago that no supplies of imported tallow would be made available to the organised sector of the soap industry, which used to be of the order of about 8,000 tonnes. Consequently, imports of tallow this year have been curtailed to meet the requirements only of the small-scale manufacturers of soap and grease-making units. Some larger exports of castor oil—32,000 tonnes during the current financial year till now, as against 37,000 tonnes during 1975-76 as a whole—too have been effected; as also those of linseed oil. These two factors have increased the pressure of soap manufacturers' demand on the vegetable oils market.

expeditious review

The decision to stop supplies of tallow to the organised sector of soap industry may have been warranted in view of the substantial decline in the prices of edible oils following the good groundnut crop during the last kharif season, but surely the situation needs to be reviewed expeditiously so that the pressure on the edible oils market by soap manufacturers can be drastically curtailed, if not eliminated altogether.

In the case of sugar, larger releases are being made now to increase the supply in the market. The uptrend in the prices of sugar too, therefore, should get reversed soon. So far as cotton is concerned, the problem has arisen primarily because the original estimate of the last crop has turned out to be wide off the mark. The situation in this market is proposed to be rectified through imports of not only cotton but also larger quantities than earlier contemplated of synthetic fibres.

foreign exchange position

The very comfortable foreign exchange position of the country at present, thanks to a sharp increase in the remittances by Indians abroad, encouraging export trends, substantial reduction in the import bill following the curtailment of imports of such products as foodgrains, fertilisers, metals—both ferrous and non-ferrous—and the strength gained by the rupee vis-a-vis pound-sterling after the link between the two was snapped last year, should, indeed, enable the government to augment the supplies of essential commodities in the market through imports either of the commodities directly or of raw materials in the case of industrial products. But this cannot be just an ad hoc measure. Efforts have to be made to keep a reasonable balance between the supplies of goods in the market and the money supply with the public. Even though bank credit is being well controlled at present and is being provided only for productive purposes and not for building up inventories, the rupee counterpart funds which have to be released against the remittances by Indians abroad surely are increasing the money supply disproportionately. The implications of this new phenomenon have to be seriously assessed and that too without delay so that the situation can be controlled effectively without adding to the inflationary tendencies in the economy.

As indicated in this column a few weeks ago, the production of several other essential commodities too has either suffered a setback compared to the last year or has not grown according to expectations. Although the availability of these goods in the market is comfortable and no scarcity conditions have been reported from any part of the country as yet, an uptrend in the prices of such commodities as well cannot be ruled out unless energetic efforts are made to augment supplies either through increasing production indigenously or through imports. Imports, in fact, may not be necessary at all as there is good scope for raising production within the country itself. The announcement last week by the minister for Industry, Mr T. A. Pai, that the government would not hesitate to import some essential commodities and industrial raw materials if the situation warranted, should augur well for the containment of prices in the coming months. The strengthening of monsoons over vast tracts of the country also should help the next kharif crop. It should go a long way in curbing speculative tendencies in agricultural products. Incidentally, the target for rice production this year has been fixed at 50 million tonnes—2 million tonnes more than the output last year.

curb on steel prices

Another important development in regard to the price level last week has been that the union ministry of Steel does not share the view of Mr J. R. D. Tata that in view of the mounting production costs, there was a case for a general increase in the prices of steel. A general raise in steel prices, it is felt, will lead to accentuation of inflationary tendencies and erode the advantage which we enjoy at present in the exports of not only engineering products but also of several others. Selective increases in the prices of some categories of steel, however, might be considered by the government. It, of course, remains to be seen how far the losses being incurred by the steel industry can be offset by selective increases in prices.

Farmers and their credit needs

R. K. Sharma & S. C. Tewari

This article compares the capital and credit needs of rural and urban influenced farmers. The authors arrive at the conclusion that even at the existing level of technology, there is a large potential market for credit in both rural and urban areas, though the short-term credit requirements of the farmer in the rural areas are significantly more than that of the urban-influenced farmer.

WITH THE breakthrough in farm technology, agriculture has become increasingly capital intensive. The adoption of the new technology requires a sizeable amount of financial input for the purchase of non-farm resources, i.e. fertilizers, pesticides and high-yielding varieties of seeds. This obviously involves more cash inputs which cannot ordinarily be met by the cultivators out of their own savings. Thus the cultivators invariably depend on external finances for the adoption of the new farm technology. It is, therefore, of utmost importance that the cultivators are provided with additional funds from different banking institutions.

actual requirements

Most of the banking institutions do not take into account the actual financial requirements for the adoption of optimum production plan under different farm situations which ultimately leads to non-adoption of optimum production plans and results in reduction in farm production in general and reduced net farm returns in particular.

A study was undertaken to analyse the capital and short-term credit requirements of the urban and rural influenced farms of Ludhiana district. The objectives of the study were:

(1) Estimation of capital and credit requirements at different levels of technology and crop-mix; and

(2) to examine the seasonal pattern of capital and credit requirements.

Ludhiana district was purposely selected as the farmers of this district are relatively more advanced in the use of agricultural technology than the rest of Punjab. Ludhiana block was randomly selected. A complete list of 77 villages was taken. It was hypothesised that capital and credit needs are influenced by urbanisation. The block was stratified into two regions viz. (i) Urban-influenced area which is within a radius of five miles of Ludhiana city and (ii) Rural-influenced area. Two-stage stratified random sampling was used with village as the primary unit of sampling and operational holding as the ultimate unit. Two villages from each region were selected on the basis of probability

POINT OF VIEW

proportion to cultivated area. A complete list of all the cultivators from four villages was taken and they were classified into small (7.06 acres), medium (7.06 — 13.21 acres), and large (more than 13.21 acres) by cube root frequency method.

Four farmers in each size group were randomly selected in each region, thus there were 24 farmers from each region. To make the study more comprehensive, larger farmers were further subdivided on the basis of power use, i.e. those with bullock-operated large farms and tractor-operated large farms. Data was selected by personal interview for the year 1971-72. For optimum technology information given by PAU, Ludhiana was used.

Budgeting technique was used to develop the optimum plans. Analysis was done under the following three plans:

Plan P_1 —Existing cropping plan with existing level of technology. The aim of this analysis was to find out the existing cropping pattern and the extent to which they are using technology.

non-conventional input

Plan P_2 —This plan represents the existing crop plan with optimum level of a technology when the restraint on the capital is relaxed. The credit requirement of this plan compared with the previous plan gives an idea of an additional requirement of the capital which can be absorbed in the farm business due to the adoption of optimum technology of production in high yielding variety, chemical fertilizers, pesticides, etc so as to maximise the net return. This would reveal the impact of non-conventional input factors on the farm credit needs.

Plan P_3 —This plan represents optimum cropping pattern in the optimum level of technology with the provision of borrowing necessary credit. It provides an estimate of optimum financial needs of the farms to adopt new technology. Difference between P_3 and P_2 gives an estimate of additional financial requirement due to change in crop-mix whereas the comparison between P_3 and P_1 gives an estimate of credit requirement due to change in organisation and technology.

Per acre capital and credit requirements for different enterprises of kharif and rabi seasons were determined. Capital requirements of farm consist of total variable cost i.e. value of seed, manure, fertilizer, pesticides, insecticides, diesel engine, casual labour, interest on cash, variable expenses, irrigation charges at flat rate, hired machinery, permanent labour, land revenue and repair charges. The enterprise budgets were prepared separately for existing and improved level of technology. The capital requirement at the existing level of technology includes the cost of inputs actually used by the cultivators. Whereas at the improved level of technology the inputs and their levels recommended by PAU, Ludhiana, for each enterprise were considered, per acre requirement for kharif and rabi was calculated by dividing total capital requirement in kharif or rabi by the area under crop during kharif or rabi season. For calculating the short-term credit requirement the following formula was used:

$Cn = Cr - Co.$

Whereas

Cn = Credit need

Cr = Capital requirement

Co = Capital owned or cash owned

Existing and optimum cropping patterns of all farm situations of rural and urban-influenced farms were summarised in Table I.

low-paying crop

A glance at this table reveals that in Plan P_1 almost all the farms of rural as well as urban influenced areas had devoted maximum area under low-paying crops such as traditional varieties of maize, kharif fodder, gram, berseem, etc. In Plan P_3, the area under traditional varieties of maize was reduced and replaced by hybrid maize; area under sugarcane, wheat and other more paying crops was increased. The intensity of cropping pattern more or less remained the same, i.e. as in Plan P_1.

Per farm and per acre capital requirements of urban and rural influenced farms are summarised in Table II. The capital requirements per farm increased in the optimum plan for all the categories of farms in both situations. The capital requirements varied between 42.48 per cent and 61.09 per cent in Plan P_3 over Plan P_1 in different categories of rural-influenced farms. It varied between 38.61 and 57.15 per cent in the case of urban-influenced one. The increase in the overall capital requirements was the highest on the small rural farms. In case of urban-influenced farms, it was the highest on medium farms followed by small, large bullock-operated and large tractor-operated. A similar trend in the increase in capital requirements was revealed as one moved from Plan P_1 to Plan P_3, but capital requirements decreased increase in farm size in Plan P_3 with over Plan P_2.

per farm requirement

Per farm capital requirements were Rs 1961.61, Rs 3942.92, Rs 7533.99 and Rs 13191.39 on small, medium, large bullock-operated and large tractor-operated farms of rural areas respectively for Plan P_1. The corresponding figures for urban influenced farms were Rs 2350.85, Rs 3503.11, Rs 7956.28 and Rs 16431.82. Thus the study indicated that capital requirements of all categories of urban farms were higher than the rural-influenced farms. Capital requirements in Plan P_2 were Rs 2898.76, Rs 5300.01, Rs 11041.42 and Rs 19005.65 on small, medium, large bullock-operated and large tractor-operated rural influenced farms. In the case of urban-influenced farms if one takes to new technology with existing cropping pattern, one has to spend Rs 1000.77, Rs 1651.66, Rs 3159.47 and Rs 5801.24 more on small, medium, large bullock-operated and large tractor-operated farms respectively over Plan P_1. With the adoption of Plan P_3 the capital requirements further increased on urban-influenced farms by 8.73, 6.79, 3.02 and 2.44 per cent on the small, medium, large bullock-operated and large tractor-operated farms respectively. The respective figures for rural influenced farms were 9.01 5.99, 9.50 and 4.41 per cent.

The capital requirements were higher in rabi season as compared to kharif season in both the farm situations. The reason for this may be that the capital needs of the irrigated rabi crops were more than the kharif season crops.

Per acre capital requirements revealed that it had positive correlation with the size of holding in both the farm situations. The reasons for this may be: (1) that the imputed value of family labour was not included for capital requirement estimation of all categories of farms as it was simply going to augment the capital requirements which, in fact, were not paid to the family labour and (2) the study revealed that the per acre expenditure on permanent labour on small farms of urban and rural areas was nil and it increased with the size of farm. The increase in capital requirements on per acre basis with the change from existing cropping pattern and optimum technology was Rs 171.01, Rs 153.31, Rs 204.32 and Rs 227.20 on small, medium, large bullock-operated large and tractor-operated farms of rural areas respectively.

higher use of inputs

The urban-influenced small, medium, large bullock-operated and large tractor-operated farms spent 42.57, 47.06, 39.71 and 35.30 per cent more respectively when they moved from Plan P_1 to Plan P_3. The study showed that the per acre capital requirements of rural large bullock-operated farms were 60.48 per cent more when they adopted Plan P_3 over Plan P_1. The corresponding figure for urban influenced farms was only 43.93 per cent. The study showed that the present level of use of inputs on urban-influenced farms was higher than that of rural-influenced farms.

The credit requirements are presented in Table III. The financial requirements from external agencies increased by 161.61 per cent if optimum cropping pattern with optimum level of technology was adopted as compared to

present Plan P_1 on the small rural farms. However, in other categories of rural-influenced farms, the increase varied between 111.44 to 127.71 per cent. The percentage increase in the credit requirements with the change in crop-mix and optimum technology on urban influenced farms was 247.50, 344.54, 169.87 and 80.07 on small, medium, large bullock-operated and large tractor-operated farms respectively. The study revealed that the short-term credit requirements of all categories of urban farms, except in the case of tractor-operated farms, was much less than the rural farms. This is an indication of the fact that the urban-influenced farms have more owned funds as compared to rural-influenced ones. Per acre credit requirements of rural-influenced farms were Rs 139.62, Rs 153.31, Rs 241.61 and Rs 236.00 for Plan P_1 and increased to Rs 358.44, Rs 342.69, Rs 482.79 and Rs 501.76 on small, medium, large bullock-operated and large tractor-operated farms respectively. On urban influenced farms the per acre short-term credit requirements were worked out to be Rs 100.93, Rs 69.91, Rs 116.40 and Rs 243.44 in Plan P_1 for small, medium, large bullock-operated and large tractor-operated farms respectively. Respective figures for Plan P_3 were Rs 334.18, Rs 312.18, Rs 327.51 and Rs 440.92.

Thus, the per acre credit requirements, on all the four categories of farms in both the situations, in rabi season were higher as compared to kharif season. On rural-influenced small farms credit requirements increased

TABLE I

Existing and Optimum Cropping Pattern for Urban and Rural Influenced Farms under Different Farm Categories (in Acres)

	Urban influenced								Rural Influenced							
	Small		Medium		Large bullock		Large tractor		Small		Medium		Large bullock		Large tractor	
	P1	P3	P1	P3	P1	P3	P1	P3	P1	P3	P1	P3	P1	P3	P1	P3
Kharif																
Desi maize	2.78	0.50	2.36	0.70	4.68	1.30	10.54	3.00	2.06	0.75	3.63	1.00	5.95	3.10	11.89	4.73
Hybrid maize	0.49	2.50	0.93	2.50	2.94	4.00	6.76	10.10	0.72	1.70	1.24	3.00	3.13	6.00	5.16	9.50
Desi cotton	0.40	0.55	0.67	1.20	1.63	2.00	3.52	3.50	0.62	1.00	1.12	1.50	2.43	3.00	3.46	4.00
Sugarcane ratoon	0.10	0.25	0.46	0.70	0.58	0.93	0.62	10.05	0.21	0.35	0.26	0.43	0.41	0.77	0.67	1.04
Sugarcane planted	0.25	0.50	0.70	0.80	0.93	1.12	1.05	1.45	0.35	0.40	0.43	0.57	0.77	0.83	1.04	1.16
Kharif fodder	1.28	1.00	2.58	1.30	4.59	5.00	7.61	9.00	1.14	0.90	1.52	1.20	2.13	1.80	2.11	1.90
Toria	—	—	—	0.50	—	1.00	—	2.00	—	—	—	0.50	—	1.00	—	2.00
Groundnut (unirrigated)	0.90	0.90	1.20	1.20	2.63	3.75	4.31	5.00	0.70	0.70	1.10	1.10	2.52	3.00	2.30	2.30
Fallow	—	—	—	—	1.12	—	0.69	—	—	—	—	—	2.16	—	—	—
Rabi																
Wheat KS 227	3.31	2.80	2.95	4.00	6.46	7.00	14.93	16.10	3.13	2.50	5.37	4.60	8.98	10.90	15.12	15.00
Wheat PV-18	0.77	1.35	1.03	1.60	2.61	3.30	6.43	6.50	0.36	1.35	0.88	2.00	3.96	3.00	5.05	6.73
Berseem	0.52	0.40	1.78	0.60	3.13	3.00	5.79	5.00	0.63	0.50	0.75	0.60	1.17	1.00	1.33	1.10
Toria	0.35	—	0.78	—	1.04	—	1.28	—	0.42	—	0.51	—	0.85	—	1.12	—
Gram (unirrigated)	—	—	—	—	1.12	—	0.69	—	—	—	—	—	0.48	—	—	—
Fallow	0.90	0.90	1.20	1.20	3.23	3.75	4.31	—	0.70	0.70	1.10	1.10	2.88	3.00	2.30	2.30

Note :—The cropping pattern for Plan P1 and Plan P2 is same.

from Rs 42.22 to Rs 160.06 in kharif season, whereas the credit requirements in rabi season rose to Rs 198.36 from Rs 97.40. The per acre credit needs were Rs 17.66 and Rs 83.27 for kharif and rabi season respectively on urban-influenced small farms in Plan P_1. The corresponding figures for Plan P_3 were Rs 158.98 and Rs 175.20. This shows that crops in rabi season are more capital-intensive as compared to kharif crops.

The empirical finding of this study indicate that even at the existing level of technology use there exists a large potential market for credit which could be increased by three times as a result of adopting optimum cropping pattern and optimum technology in both the areas. It could also be seen that the short-term credit requirement would be more on rural farms as compared to urban influenced farms. Therefore, more efforts have to be made to extend credit facilities to the farmer of rural areas in order to harvest the fruit of improved technology.

TABLE II

Capital Requirement for Optimum Farm Plans in Rural and Urban Influenced Farms

Category		Kharif: Per farm	Kharif: Per acre of cropped area	Rabi: Per farm	Rabi: Per acre of cropped area	Total: Per farm	Total: Per acre of cropped area	Percentage change in capital requirement in successive Plans	Percentage change in capital requirement in P_3 over P_1
Rural Influenced									
Small	P_1	804.88	138.77	1156.73	226.80	1961.61	365.57	47.77	
	P_2	1343.33	231.60	1555.43	304.94	2898.76	536.58		61.09
	P_3	1488.48	256.63	1671.66	327.77	3160.14	584.40	9.01	
Medium	P_1	1660.35	178.53	2282.57	278.36	3942.92	456.89	34.41	
	P_2	2505.18	269.37	2794.83	340.83	5300.01	610.20		42.48
	P_3	2667.36	286.81	2950.59	359.82	5617.95	646.63	5.99	
Large bullock operated	P_1	3340.95	192.67	4193.04	252.28	7533.99	444.95	46.55	
	P_2	5230.01	301.61	5811.41	349.66	11041.42	651.27		60.48
	P_3	5988.70	307.11	6102.16	369.82	12090.86	576.93	9.50	
Large tractor operated	P_1	5754.23	216.08	7437.16	305.68	13191.39	521.76	44.07	
	P_2	9071.45	340.65	9934.20	408.31	19005.65	748.96		50.43
	P_3	9143.01	343.04	10701.68	447.21	19844.69	790.25	4.41	
Urban Influenced									
Small	P_1	1084.52	174.92	1266.33	238.93	2350.85	413.85	42.57	
	P_2	1655.14	266.96	1696.48	320.09	3351.62	587.01		55.01
	P_3	1890.67	304.95	1753.55	330.84	3644.22	635.79	8.73	
Medium	P_1	1595.35	179.25	1907.76	244.58	3503.11	423.83	47.06	
	P_2	2336.84	262.56	2817.93	361.27	5154.77	623.83		57.15
	P_3	2504.80	281.43	3000.46	384.67	5505.26	666.10	6.79	
Large bullock operated	P_1	3908.22	216.88	4048.06	255.07	7956.28	471.95	39.71	
	P_2	5555.36	308.28	5560.39	350.37	11115.75	658.65		43.93
	P_3	5620.87	294.28	5831.15	379.87	11452.02	674.15	3.02	
Large tractor operated	P_1	8103.35	235.49	8328.47	270.58	16431.82	505.07	35.30	
	P_2	11246.05	326.82	10987.01	356.95	22233.06	683.76		38.61
	P_3	11066.38	315.52	11710.57	389.05	22776.95	704.57	2.44	

TABLE III

Short Term Credit Requirements for Optimum Farm Plans in Rural and Urban Influenced Areas

Category		Kharif: Per Farm	Kharif: Per Acre	Rabi: Per Farm	Rabi: Per Acre	Total: Per Farm	Total: Per Acre	Percentage change in credit requirements in successive Plan.	Percentage change in credit requirements in P_3 over P_1
Rural Influenced									
Small	P_1	244.88	42.22	469.73	97.40	741.61	139.62	126.37	
	P_2	783.33	135.06	895.43	175.57	1678.76	310.63		161.61
	P_3	928.48	160.08	1011.66	198.36	1940.14	358.44	15.57	
Medium	P_1	485.05	52.51	826.57	100.80	1311.62	153.31	103.47	
	P_2	1329.88	142.99	1338.83	163.27	2668.71	306.26		127.71
	P_3	1492.06	160.43	1494.59	182.26	2986.65	342.69	11.90	
Large bullock operated	P_1	1771.22	102.14	2318.04	139.47	4089.26	241.61	85.77	
	P_2	3660.28	211.08	3936.41	236.85	7596.69	447.93		111.44
	P_3	4418.97	226.61	4227.16	256.18	6646.13	482.79	13.81	
Large tractor operated	P_1	2495.23	93.70	3462.16	142.30	5957.39	236.00	97.60	
	P_2	5812.45	218.27	5959.20	244.93	11771.65	463.20		111.68
	P_3	5884.01	220.66	6726.68	281.10	12610.69	501.76	7.13	
Urban Influenced									
Small	P_1	109.52	17.66	441.33	83.27	550.85	100.93	181.68	
	P_2	680.14	109.70	871.48	164.43	1551.62	274.13		247.50
	P_3	985.67	158.98	928.55	175.20	1914.22	334.48	23.37	
Medium	P_1	290.35	32.63	290.76	37.28	581.11	69.91	284.23	
	P_2	1031.84	115.94	1200.93	153.97	2232.77	269.91		344.54
	P_3	1199.80	134.81	1383.46	177.37	2583.26	312.18	15.70	
Large bullock operated	P_1	967.47	47.69	1090.41	68.71	2057.88	116.40	153.53	
	P_2	2614.61	139.09	2602.74	164.01	5217.35	303.10		169.87
	P_3	2580.12	140.32	2873.50	187.19	5553.62	327.51	6.45	
Large tractor operated	P_1	4096.35	119.05	3828.47	124.39	7924.92	243.44	73.20	
	P_2	7239.05	210.38	6487.01	210.76	13726.06	421.14		80.07
	P_3	7059.38	201.37	7210.57	239.55	14269.95	440.92	3.96	

Rural marketing

Yagdish L. Grover

The author, a lecturer in Business Administration in B.N. Chakravarty University, Kurukshetra, advocates consumer research in rural areas of this country for finding a market for the industrial products which are currently piling up with the manufacturers and the wholesalers as well as the retailers. He is of the view that education of the consumers in the use of a product in these areas is absolutely necessary for creating loyal customers.

ONE OF the most familiar sights that meets the eye every morning in the newspapers these days is the plethora of advertisements about slashing of prices and availability on easy instalments of various goods, particularly consumer durables such as refrigerators and coolers, radios and television sets, sewing machines and electric fans. Similar is the case with many of the semi-durables such as ready-made garments, textiles and sarees. This trend has been markedly visible for the past one year or so.

If we examine the reasons leading to the above situation, the following points need to be immediately mentioned:

(a) Increased production of all goods, specially after the emergency (which brought about industrial peace);

(b) Increased competition;

(c) The general effort of manufacturers to reduce prices in keeping with the objectives of the prime minister's 20-point programme;

(d) Slow growth in money supply, partly because of the stricter watch by the government on luxurious spending, specially among the urban rich; and

(e) Reduction in excise duties on several items.

welcome reduction

The reduction in prices and availability on instalments of the so-called luxury goods is most welcome from the point of view of those consumer sections of society who could not afford them earlier. However, manufacturers and wholesalers as well as retailers are not in a happy position as stocks continue to pile up.

The overall impact of all the measures taken by the governmant is that in the past one year, the sellers' market has yielded place to one of buyers' market, compelling trade and industry to take serious note of this drastic and sudden change, which has caught some of them unawares. And, as someone very aptly put it, "Obvious crises are the easiest to meet; the deepest challenges to men are those that emerge imperceptibly, that derive from fundamental changes, which, if not addressed, portend upheavals in the future."

buyers' market

The above shift in the market situation was noted by leaders of business and industry, at the last session of the Federation of Chambers of Commerce and Industry, held in New Delhi in May, 1976. Delegates to the session noted that producers had little inducement, as long as the sellers' market had prevailed, to devote much thought and resources to marketing. With the demand for almost everything way ahead of supply, goods had virtually sold themselves and buyers had to take what was available and pay the prices asked for. As Mr Sudhir Jalan of Calcutta put it, "No longer could producers sit back and take it easy, confident that their goods would be snapped up by eager buyers. Buyers had to be 'sought out, persuaded, cajoled and induced to buy." He further observed that "industrial units afflicted by recessign, accumulating unsold stocks and declining profitability were only paying the penalty for prolonged indifference to and neglect of marketing."

On the other hand, one may mention that even in the face of current recession there were instances of units continuing to flourish, virtually unscathed by lack of demand, the secret of success being their ability and foresight to build up an extensive rural base for their products.

awakened businessmen

It is heartening to note that businessmen in India have, at last, started realising that for the sheer survival and prosperity of their respective businesses, the consumers can no longer be neglected (as in the past), and deserve a better deal.

The most important question facing the manufacturers today is: 'How to effectively meet the challenge of the buyers' market?' While many industries are making frantic ad hoc efforts to meet this new situation, through crash selling and similar other means, yet the question is of far-reaching import and therefore demands serious, searching analysis, both from short-term and long-term point of view.

Since the scope of the subject is quite wide, this article is confined to discussion of only one of the possible solutions, though it may, perhaps, turn out to be the most significant and profitable, particularly from a long-term perspective. This aspect, namely the building up of a rural market, was mentioned at the FICCI session also, and has been the subject of debate at some other forums as well. Yet a systematic and concerted effort in this direction has been woefully missing.

The increase in agricultural production during the past years has been phenomenal, bringing about more and more prosperity to the rural masses. The rural incomes have been continuously rising, and if the present trends continue, these are expected to rise at a still faster rate in the future. The various steps taken by the government will improve the situation further.

For instance, one of the biggest drains upon the income of the Indian villager, for the past several decades, was that of repayment of old debts and loans. With the liquidation of rural indebtedness as a part of the 20-point programme, this curse has been lifted from the farmer's head, which will make available to him a fair amount of disposable income for discretionary spending.

rising incomes

Similarly, the provision of land and houses to the rural landless people, and the statutory increase in the minimum wages of agricultural labour, will also raise rural incomes.

The time is therefore ripe for the intelligent marketeer to capitalise on this increased prosperity of the rural market.

For the successful exploitation of the rural markets (and for that matter, any market), an adequate infrastructure is a basic prerequisite. The absence of such a satisfactory infrastructure in Indian conditions has been a major hurdle in the marketeer's efforts to enter the rural markets.

Some of the important facilities needed for the above purpose are:

(a) Proper transportation system;

(b) Better and speedy communication facilities;

(c) Development of regulated markets linking village hinterland;

(d) The availability of banking facilities, suitably adapted to meet the requirements of the rural customers.

These aspects did not receive the necessary amount of attention in the past. Fortunately, after the emergency, and specifically under the 20-point programme, the foregoing aspects have been given primary importance. Some states, notably Punjab and Haryana, have given top priority to rural electrification and rural transportation. Both will lead to faster and more efficient communication. Other states are also taking similar steps. Rural banks have already started functioning in numerous villages and many more are fast coming up. Similarly, rural education programmes and rural medical care facilities are receiving the urgent attention of all concerned. The availability of TV programmes through SITE is making the rural people more knowledgeable. The development of and improvement in the distribution system is also being attended to more vigorously.

Thus, at least in some of the regions, the necessary infrastructure facilities are either now available or are fast coming up. From this point of view also, it is an opportune time for the innovative marketeer to take the initiative of entering the rural markets in a big way.

consumer research

The starting point for any and all marketing activity should be consumer research, an in-depth analysis and study of customer attitudes and behaviour. In this country, where research on consumer behaviour has been nominal, not much systematised information is available about the rural consumers. Only a few enlightened companies, known for their marketing orientation, namely Hindustan Lever, Philip India, Larsen and Toubro, and some others have made concrete efforts in this direction. But, by and large, we have still to understand the rural buyer, his habits, attitudes and behaviours, particularly from a marketing point of view. For instance, one hypothesis is that the rural buyer is not very discriminating. Once he is persuaded to buy a particular product, he develops a strong affinity for it and, if satisfied, becomes brand loyal. A contrary view is that the rural buyer, being skeptical of the marketeer's hard-sell techniques, is quite discriminating and not easily persuaded. Yet another hypothesis is that the rural customer is not so keen about cheap goods as about quality and good packing. Some other similar assumptions can be quoted. But all these need a deep probe for arriving at valid and reliable conclusions. At the same time, other aspects such as product research and advertising research need to be earnestly undertaken. The careful marketeer will do well to undertake the necessary surveys and research before trying to enter the rural segments of the market.

formidable challenge

It is not an easy task by any means. India is a country where numerous diverse cultures, with different historical and traditional backgrounds, thrive. With the level of economic prosperity differing widely from place to place, marketing in the face of such heterogenous complexities, is undoubtedly a formidable challenge for the marketeer in India.

A consumer who knows how to use a product will derive maximum benefit from it and thus enjoy maximum satisfaction. A satisfied customer soon becomes a loyal customer, and helps in word-of-mouth promotion of the product and the manufacturer.

While the rural population is now more prosperous and literate, yet it needs a lot of education about the use and maintenance of most of the durable goods like tractors, diesel engines, motor cycles, sewing machines, radios, and so on. When such products as refrigerators and TV sets enter these markets, their proper use, care and maintenance will again need considerable prior education.

It would accordingly be incumbent upon the manufacturers to educate the rural buyers, particularly about product use and maintenance, through informative literature, well-trained salesmen and proper labelling. As a preliminary preparation, the manufacturers should start giving serious thought to this aspect, if they wish to succeed in the rural markets.

The foregoing analysis would shows that one of the most promising and effective methods for meeting the challenge of a buyers' market is through proper development and nurturing of the fast emerging rural markets. In the words of Mr J.R.D. Tata, "if only 10 per cent of rural society become regular buyers of industrial products, the industrial goods will have five crores of new customers added to their present market." Understandably, it is quite an uphill task. The cost and efforts of selling in thousands of widespread villages would be far greater as compared to the effort needed for marketing in urban areas. Yet, in the long run, this could perhaps be the most far-sighted policy decision for Indian industry, and in this may lie their own survival, growth and profitability, as well as that of the nation. To start with, let the marketeers attend to those small towns, where people from surrounding villages come and which are therefore akin to village markets.

It is also the best opportunity that Indian industry has for raising the standard of living of the long-neglected rural masses, and thus helping in the realisation of the objectives of a socialistic society in this country. One can best sum up by qouting the managing director of Hindustan Thomson Associates Ltd. In his words, "Most of the newly created rural wealth lies buried under the pillow of the villager, and to knock at the door of this yet untouched rural market, is the most exciting development in marketing in India." The time to knock is now.

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Happy new thousand years

Peter Adamson

The date is January 1st 2000 AD and every newspaper in the world is looking back on 2000 years of human history. This article surveys the most momentous chapter in the story—the history of the years 1975 to 2000.

THERE is not a newspaper editorial in the world which can resist the temptation to indulge in a sentimental survey of the 2000 years of human history which ended at midnight last night. And this newspaper is no exception.

As twenty centuries could be a little heavy on the digestion, as you sit down to your first breakfast of the millenium, let us pick up the threads only a quarter of a century ago and use the vantage point of this magical date, January 1st 2000, to gain some perspective on what has happended in the last twenty five years. For who could deny that it was the most momentous chapter in the human story?

WINDOW ON THE WORLD

Almost half the people in the world this morning were not born 25 years ago. To them 1975 is just a date from the dark age. And as much of what follows is in defence of the 'dark decade', let it be admitted straightaway that the general darkness is not in doubt.

Historical records for the mid 1970's, although inadequate, tell us that 30 per cent of the world was malnourished; that perhaps as many as 10,000 people were dying of hunger every day; that 70 per cent of the world's people did not have reliable supplies of safe water; that almost half the world did not have any medical care to speak of; that one child in three had no school to go to; that perhaps as many as 300 million did not have useful and rewarding work to do; that 75,000 people were leaving the countryside every day to join the uncounted millions living in squalor on the edges of the cities; that over 600 million old-dollars were being spent on armaments every twenty-four hours; and that, in the midst of this misery of the majority, the 1970's also saw some of the most conspicuous consumption ever indulged in on this planet before or since.

Glowering down on this gross violation of a sustainable relationship between peoples, was an equally gross violation of the relationship between the people and the planet, the earth's resources were being depleted and its environment polluted at a rate which, had it continued, would have left little by way of legacy for the first child of the new millenium pictured on the front page this morning.

Unfashionable as it may be today to whisper a word in defence of those days, it ought to be said that it was the 1970's, also, which gave birth to the basic ideas of today's conventional wisdom and to the institutions which now embody it.

many firsts

The first ever World Environment Conference, for example, was held in 1972 in Stockhom. The first ever World Food and Population Conferences were held in 1974 in Rome and Bucharest. The first World Employment Conference met in Geneva in 1976 under the auspices of the International Labour Organisation, as it was then known. The first World Water Conference met in Argentina in 1977, and in the same year the first ever World Desertification Conference was convened in Kenya and the first World Environmental Education Conference opened in the Soviet Union.

Seven 'firsts' in five years show that something was stirring in the darkness.

These first conferences, compared with their descendants today, were clumsy affairs held in different languages and run according to unwieldy traditional procedures which had not changed for hundreds of years. But when we smile at these ponderous proceedings on the old films which are now so much in vogue, we should also recognise them as the beginning of the end of the dark age.

For from these first world conferences, and all that surrounded them, a consensus was struggling to be born.

This embryonic consensus of the 1970's has two parents. One was the realisation that the great crises of environment, food, population and unemployment, were not accidentally coinciding aberrations from an otherwise well-adjusted system, but different symptoms of a common disease—chronic inequality.

That first World Environment Concerence, for example, analysed two environmental crises—the crisis of 'too much' in the Northern Hemisphere and the crisis of 'too little' in the Southern Hemisphare. In that now classic work ',Only one Earth", prepared for the first Environment Conference, Barbara Ward and Rene Dubos wrote "that there is an essential and inevitable element of redistribution of resources underlying the problem of the environment."

The first World Food Conference also pointed its finger at this same inequality. The Food and Agriculture Organisation announced that "the food crisis is a crisis of price and distribution" and a well-known contemporary commentator, Frances Moore Lappe, summed up the proceedings by saying "it is clear that if the world's agricultural resources were distributed at all equitably or used at all rationally there would be enough food to go round now."

forging the link

At Bucharest in the same year, the World Population Conference, forged its link in the chain which bound world crises to world inequality. It told an often defiant public opinion that rapid population growth was a function of poverty. It publicly learnt and taught the lessons that children were a necessity when work was hard, illness came often, old age came early, and security came never. Lester Brown said at the time "There will be little change of bringing birth-rates down rapidly enough to avert disaster without a more equitable distribution of goods and services."

In the following year, the World Employment Conference completed the quadrant. It may surprise some to know that the man who organised that conference was none other than Louis Emmerij, a young man of 38 at the time. Summing up the tragic unemployment situation in the mid 1970's, he was to say tersely "inequality equals unemployment."

old economic order

If one parent of the emerging consensus was the realisation that inequality linked the great crises of the age, the other was the realisation that inequality itself was no historical accident or geographical phenomenon, but rather an inevitable product of what we now call the Old Economic Order.

As we all prepare, in our different ways, for the 43rd Special Session of the United Nations General Assembly in March, we should remember that it was at those early 6th and 7th Special Sessions, in 1974 and 1975, and at the fourth UNCTAD Conference in Nairobi the following year, that the dominant forces of the dark age, the concepts, the yardsticks, the very methods of Old Economic Growth received the sharp cuts across the wrist which, although shrugged off with a wince at the time, finally bled the Old Economic Order to its slow death.

It was then that a phalanx of southern politicians pressed the point that 80 per cent of the increase in the world's Gross International Product, as wealth was then measured, was accruing to the already rich. It was there that it was widely recognised that the structures which, generated wealth were not neutral as to its distribution and that the quaint concept of 'trickle-down' was constipated. "It is now clear that more than a decade of rapid economic growth in underdeveloped countries" said Hollis Chenery, at the time a senior economist with the World Bank, "has been of little or no benefit to perhaps a third of their population."

Parented by these two great principles, the emerging consensus of the 1970's was eventually to bring about a greater change in our concept of civilisation than any that has occurred in the 2000 years of history just ended. For at long last, the idea that the poor will always be with us and that equality is a utopian ideal, was being widely challenged by the idea that equality was a practical necessity and that the basic needs of all could and must be met. A shift in civilisation had begun to occur, a shift from the philosophy of every man for himself and survival of the fittest to the philosophy of every man for every other man and survival of them all.

From then onwards, it began to be strenuously argued that Old Economic Growth must give way to the meeting of basic needs for all as the aim and measure of development and that without redistribution of resources and future opportunities the great crises could not be solved.

revolutionary idea

It is difficult for us to appreciate how revolutionary that idea was in the mid 1970's. It cannot but seem surprising that it should take so many years, so many great minds, and so many misspent dollars, to discover that development means meeting the basic needs of everybody for food, shelter, clothing, housing, medical care, education and employment. After all, there were at least 2 billion people in the world, many of them actively looking for a job, who would have been glad to act as consultants on this question and who could have reached the same conclusion much more quickly and for a much lower fee. But they were not asked.

Those early Special Sessions of the United Nations General Assembly took up the heartbeat of that embryonic consensus and begun the laborious process of giving it birth. Baptised initially as the New Economic Order, it was at first a week and orphaned child and no one gave much for its chances of survival. But as the 1970's wore on into the 1980's, the child began to put on weight and adoption procedures were begun.

The story of how this New Economic Order became the new relationship of today is too recent to bear the detailed telling. The important point is that there was no one blueprint. There were bloody revolutions and peaceful reforms, civil wars and negotiated transitions, acts of terrorism and acts of heroism.

And most of all there were what we now euphemistically call 'corrective catastrophies'. We accommodate and tame our horror of these not-too-distant disasters by abstracting them into acceptable analogies about pain being the body's warning or the necessary accompaniment of a new birth. But lest we ever forget, it was we who benefited from the warning and others who paid the price.

principles of equality

By the end of the dark decade, it was no longer possible to suppress discussion and action on the obvious fact that the principles of equality embodied in the New Economic Order were as relevant and necessary within nations as they were between them.

And by the 1980's, the 'Grand Analogy' emerged to trace the fundametal fault-line which ran right through the old relationship between developed and developing nations, men and women, employers and employed, cities and rural areas, government and governed, black and white, and perhaps most of all, between people and the environment. The realisation that, in each of these relationships, the greater power of the dominant partner was being used to subject the needs of one to the wants of the other, paved the way, not without cost, to our new relationship which so preoccupies us today.

Under the new relationship, it began to be realised that all problems were not convergent, could not be computerised or solved by hardware, and would not yield to science and technology alone. We began to appreciate that going to the Moon was a very big step for a man and a very small step for mankind. And we began to realise that the divergent problems, the problems of how peoples and societies relate together harmoniously, were the difficult problems in the solution of which we were no further forward than the ancients who pondered these matters before the last two millenia began.

Within these broad concepts, diversity and complexity came to be seen not as nuisances but as necessities—just as they are in the natural world.

In fact all along this turbulent path, it has become clearer and clearer that the state of our local and global environment is a guide to the new and uncharted path that the world is embarking on the troubled process of redistribution and of new growth is being blessed and encouraged by the response of the environment. For in the continuing drive towards redistribution and the meeting of basic needs, the pattern of production is gradually shifting away from ever-increasing environmental pollution and resource depletion. The people of the old-rich nations are slowly beginning to change from old growth with its necessary obsolescence and waste, its inbuilt need for ever-increasing consumption, and its use of the natural world as a 'cost-free' disposal system, to the new growth which counts nature's cost and lists durability and conservation on the credit side of its ledger.

Meanwhile the people of the Southern Hemisphere are beginning to use their increased consumption power not to pollute the environment and deplete resources at unsustainable rates by buying motor cars and the myriad products of old growth industries, but to meet such basic needs as food, shelter, sanitation which, by definition, require sound environmental management.

Increased purchasing power for more than one billion very poor people is making it possible for them to buy and grow more food. And it is inevitably creating a demand for more basic goods which can and are being met with local resources and local skills, so reducing the dependence inherent in the old relationship and increasing employment in the way Louis Emmerij had said that it would in the dark days

Eastern Economist 30 Years Ago

JULY 26, 1946

Agricultural Economics was for long a by-product of the technical researches into the basic agricultural seiences. Many of the bulletins issued by the agricultural research stations. detailing the results of technical experiments, expressed authoritative opinion on the profitability or otherwise of the adoption of their suggestions. A chemist, for example, who found the sugar content of beets normal in a given locality, would at once proceed to draw the conclusion that sugar beets should and could profitably be grown in that part of the country. As the exchange of economy developed, the illogicality of such inferences became apparent. Consequently the Departments of Agriculture specially in the United States, began organising inquiries into the quantities produced per acre, the cost of production and marketing, the relative profitability of alternative crops, tariffs, tenures and all such matters. It is only such total knowledge that can enable a scientist to draw a really valid conclusion. It is this realization that has compelled the United States Department of Agriculture to organise a regular Bureau of Agricultural Economics, which, short of the highest political level, has almost the final say in the determination of agricultural policy.

of 1976. And the effect of basic needs beginning to be met has started to justify all the claims of the first World Population Conference, claims which seemed so incredible at the time.

As everyone knows, these great problems are not yet solved. There is still poverty and inequality and they are inevitably still accompanied by strife and violence. These issues rightly dominate the headlines. But on this first day of the 21st century, it is surely not inappropriate to indulge for once in a small celebration in honour of the fact that the nearness to the brink was noticed, that the points have been thrown and the human train switched on to a track with a future.

East European economies continue to borrow from the west

E. B. Brook, Vienna

This report from Vienna says that the east European countries are trying to curb consumer demand by raising prices while continuing to spend heavily on defence and industry. The debts incurred by the east European countries from western Europe have risen enormously causing problems of servicing the loans. The west European economies are keen to curb inflation but without letting unemployment rise.

MIDSUMMER AND the holiday season combine to make this a time in which nothing remarkable happens in Europe, largely because no one wishes anything to happen. But more than this general languor is required to explain why nothing particular moves forward anywhere. The British have a sterling crisis early in June; there is a patching loan, a small recovery and monetary crises pass into slumber. The Italians have another economic crisis and an election, and — until the next time — all is quiet in Rome. With two prosperous big powers, the USA and West Germany, effectively out of the international ring with domestic elections till, in practice, the new year, 1976 is going to be a year of do nothing in particular.

Joining in the mood, east Europe is also quiet. The East Berlin conference of the European communist parties ostensibly rebuffed the Soviet Union for intervening in their affairs in the name of international solidarity. The fact that none of this rebuff was reported in the Soviet press means that the Soviet people are unaware of it, that Moscow tactfully ignores some ill behaviour by its younger brothers while it lays the groundwork for a world communist conference which it believes can be managed much more easily than a European conference, especially since it is to be held in Moscow's most needy friend, Outer Mongolia.

But this political ploy does cover the facts that Poland recently ran close to a repetition of the northern ports' riots of 1971 that overthrew the then party secretary, Gomulka, because domestic prices rose out of all control. Nor does it disguise food price increases in Hungary—30 per cent for meat and fish and 20 per cent for poultry. In both countries the increased prices have been set to reduce the cost to the state of subsidizing food. But, whereas the Poles forgot to give compensations, all Hungarian employees and pensioners will be given another 60 forints (about $ 3) to balance the sum they must take from their pockets.

About all, party peace does not obscure the stiffer terms east European countries and Comecon are having to accept every time they seek to borrow money from west Europe. Since east Europe remains a steady borrower—$ 2.5 billion in syndicated loans from western banks last year and at least two-thirds of that amount already borrowed from banks so far this year—east Europe continues the process of settling steadily deeper into debt, and on harder terms. With total loans of $ 22.5 billion in 1974 and of $ 32 billion last year from western banks for all east Europe—the Soviet Union's own debt is not less than one-third of the total—indebtedness is becoming a fast-growing economic tactic and US banks, which hold about 15 per cent of the total western banking credits to Comecon countries, are fast approaching the 10 per cent legal limit of reserves and capital that can be assigned to any one borrower.

mounting debts

With a growing burden of loan servicing, debts and a politically restive following within the Warsaw Pact and Comecon, the Soviet Union may be expected for a time to join the general pattern of relative quietness which pervades today. The problem in the east is how to curb consumer demand while continuing to spend heavily on defence and industry. The problem in the west is how to restrain inflation without, at the same time, letting unemployment grow to dimensions socially dangerous. The decisions reached by the OECD in Paris and by the powers at Puerto Rico to pursue a go-slow policy over economic recovery were inspired by the same fear that a go-ahead drive for exports, industrial production and anything like a free-for-all in trade would quickly exhaust the limited capacities of industrial production, leading to shut-downs and more employment. The Swiss National Bank's placing sharply higher reserve requirements on commercial banks' foreign liabilities was very much in the same line—to avoid fuelling inflation through excessive growth in the money supply.

anti-trust cooperation

The same sentiment of caution moved the USA and W. Germany to sign an antitrust cooperation agreement aimed at facilitating the gethering of information on trusts' activities within their borders. The US is seeking similar agreements with the Common Market, Britain, Japan, Canada and Australia. The agreement is on the lines of the OECD recommendation on this subject and justifies a country in informing another government if it discovers a multinational is violating the laws of that government. That agreement amounts to a greater degree of governmental cooperation to restrain go-getting international business than has ever been known before.

Taken by itself the US-German agreement restraining multinationals, being based on OECD recommendations, is more than a two-state treaty. It is the first expression of the world's leading international economic organisation's fears on the subject of massive, multinational trading. It is also in line with the current mood of restraint and, to a point, of marking time. This check, coming tellingly almost at the same time as publication in London of the official report on the operations of the Lonrho company, marks a new attitude to the free flow of capital investment. Foreign capital has often been suspect in industrially developing countries; in the fully industrialized countries there is increasing lack of trust in an open investment climate, a lack caused by recent revelations of bribery and corruption, of direct intervention of foreign big business in the politics of a third country and this was the shock to many-within a European state. There is increasing wish for some such organization as the GATT for investment as well as for international trade. Governments of some two dozen industrial states have already laid down what they consider to be reasonable standards of business practice for companies which they should follow voluntarily.

The advantage of adaptable, adventurous initiative continues to lie with the great multinationals rather than with either governments or international political organisations. The former have received a rap over the knuckles they are well able to accept. Governments, the GATT itself and the Common Market—with another summit in session—are all making timid, insufficient steps.

The Market's offer in Geneva to cut tariffs on industrial goods as a contribution to trade liberalization falls far short of the US plan which aims mainly at reducing tariffs in the five-to-15-per-cent range, in which most of world trade is conducted. The Market's plan will not be applied to farm products and an invitation is made to less industrialized countries "to make a contribution at a later stage". The Market's plan reduces tariff by its own size, the process being repeated four times. In this way a 20 per cent tariff would, by four stages, be reduced to 10.28 per cent.

The Market has been accused by the new President of its Council, the Dutch Foreign minister Mr van der Stoel, of having moved back from its original attitude of "broadening, deepening and widening" to one of "standing still, moving back and flight". The recent record has been disappointing, with member states following policies which suit their own interests. There is no agreement over farm policies, there is division over new steel industry structures and over where the Market's apparatus to work on thermonuclear fusion—the possible energy source of the future—should be placed. National interests dominate. There is no great hope of agreement over a distribution of seats to the European parliament due to come to life, after elections in May, next summer.

What seems to be increasingly clear is that, as Greece and Turkey move towards Market membership and the number of south European members of the Market threatens to increase, several of the northern members, notably W. Germany, Holland and Luxembourg are moving together to defend their interest and industries against the southerners and, perhaps, not less against a slowly renascent Britain and the weaker members of the Nine.

Sweden and stability in exchange rates

Arne Linda

The author is a director of the Bank of Sweden. After tracing the history of monetary policies since the spring of 1973, he pleads for stability in exchange rates. He comes to the conclusion that a system of floating currencies is not the panacea which it has been claimed by many economists.

LIKE MANY other industrial countries with a big foreign trade sector, Sweden has for long been advocating foreign exchange arrangements implying exchange rate stability. Thus the breakdown of the Bretton Woods system in the spring of 1973 was, from a Swedish point of view, a major set-back in post-war economic cooperation. In the situation prevailing after these events it was natural to initiate discussions with the aim of participating on a technical level in the foreign exchange arrangements existing within the European Economic Community (EEC). As a result of these discussions Sweden joined the European currency arrangement (the so-called snake system) in March 1973. One important consideration behind this decision was the fact that by joining the system Sweden achieved stable exchange rates towards a group of countries accounting for no less than about 44 per cent of Sweden's foreign trade.

technical features

Although the main characteristics of the snake system are now well-known it might be useful to recapitulate in this context the technical features of the arrangement. First of all it implies that the exchange rate between two currencies in the snake cannot, at a given time, deviate by more than 2.25 per cent from the central rate in force between the two currencies. Since these central rates like the previous par values may be adjusted, the arrangement does not mean more stringent rules than in the Bretton Woods system where exchange rates were fixed but adjustable. Interventions by central banks take place at the margins but could also be effected inside these margins, normally after consultation with other participating central banks.

global context

In a system of this kind the position of the Swedish krona is of course determined not only by the balance of payments in relation to the other participating countries but also by Sweden's global balance of payments situation. The movements of the exchange rates within the snake are moderated by interventions by the central banks but reflect by and large the underlying market conditions. A further characteristic of the system is the fact that the snake currencies move jointly in relation to third currencies. Consequently, a participating country can get into a situation where its currency is being depreciated or appreciated in relation to third currencies at a time when such effects are not desirable.

An example of such a situation is the Swedish experience in the spring of 1974. At the time, owing to the strength of the German mark, the snake moved upwards involving an appreciation also of the krona in relation to currencies outside the snake in a situation where the balance of payments showed big deficits. In this situation rather considerable interventions were necessary and these were probably increased by revaluation rumours regarding the mark. However, it seems probable that even without a formal link to the snake like the one chosen by Sweden, a determined adherence to any form of managed exchange rate relation could have produced similar effects. Only in a system with clean floating could such effects be fully avoided.

By and large Sweden's participation in the system has functioned quite satisfactorily. The cooperation between participating central banks i.e. in the form of frequent exchanges of information has also proved to be of great value. Even if it is difficult to establish whether there have been smaller fluctuations of the krona also in relation to third currencies as a consequence of our participation in the snake system, we feel quite sure that by joining we have at least eliminated one factor of uncertainty in the exchange market.

basic aim

Our basic aim to stick to as stable foreign exchange arrangements as possible has naturally implied the acceptance of a particular framework for our monetary policy. When Sweden experienced rapidly increasing current account deficits in its balance of payments in 1974, at the same time as sudden outflows of funds not directly connected with current account developments took place, it was clear that the scope for monetary policy was similar to that which would have prevailed under the previously existing fixed rate system.

The size and character of the disturbances in Sweden's balance of payments and the prevailing sluggish economic conditions abroad justified an economic policy somewhat different from the policies pursued in many other industrialized countries. Instead of concentrating on an immediate reduction of the current account deficit by means of deflationary measures the Swedish authorities opted for a somewhat expansionary policy in order to secure a high level of employment and capacity utilization, while accepting the external deficits concomitant with such a policy. In order to finance those deficits monetary policy was designed to provide Swedish industry, local authorities, banks and other intermediaries with incentives to borrow abroad. This necessitated also certain amendments in our exchange control regulations which had so far been very restrictive with regard to foreign borrowing. This policy had effects through limited availability of credit and rates of interest which were high relative to those prevailing abroad.

fall in exports

During 1975, however, the unexpectedly weak development of demand abroad led to a significant reduction in Swedish exports. In order to compensate for this shift in demand financial incentives were provided to stimulate business fixed investment and production for stocks. These measures were combined with an accommodating monetary stance. An overall easing of credit was, however, not considered desirable. Instead the easing of monetary conditions was given a selective nature, concentrated on the needs of industry to extend its capacity and to produce to an increased degree for stocks. Short term interest rates were reduced on two occasions, in August 1975 and January last. The economic situation in Sweden required such measures and the development of interest rates abroad and the build-up of reserves that had taken place during 1975 permitted such steps.

Our traditional aim in the foreign exchange field has been an incentive for us to work in the context of international monetary reform for a return as soon as possible to a global system with fixed (but adjustable) exchange rates. The final result reached in Jamaica in January certainly does not represent any decisive step in this direction as the agreement implies a legalization of the present arrangements with floating exchange rates.

On the other hand, in the present situation the result should be considered as a reasonable framework for a gradual move towards such a system. It is, however, important that the general and specific obligations of the new Article IV of the Fund Agreement should be effectively applied. Of particular importance is the ruling out of practices implying manipulation of exchange rates in order to gain unfair competitive advantages and also the general rules for consultation and surveillance of members' practices.

At the same time one must strongly welcome the understanding reached on practical arrangements aiming at closer cooperation in the exchange rate field in a group of countries including, besides the participants of the snake, also the USA. If this pragmatic form of cooperation really achieves its aim of avoiding erratic movements in exchange rates there would exist at least a basis for a gradual return to the global system with fixed rates aimed at.

role of gold

The exchange rate issue was only one of the elements in the monetary reform discussions. It might be useful to recapitulate in this context some other issues. One question that was in the centre of the negotiations immediately preceding the Jamaica agreement was the future role of gold. While recognising that gold still is an important element in international reserves and will remain so in the foreseeable future Sweden has been among those countries which have advocated that effective measures should be taken in order to achieve a gradual demonetisation of gold. The agreements that were reached on this subject in Jamaica will hopefully lead to a reduction of the monetary role of gold. Such a development presupposes, however, that the major gold holders follow policies compatible with this long-term goal and, especially, that actions to peg the price of gold are avoided.

Another question which is closely linked to the gold issue concerns how the agreed objective of making the SDR the principal reserve asset shall be promoted, an aim which has been strongly supported by Sweden during the whole process of negotiation. It is evident that in the short run the SDR will continue to be a quantitatively rather insignificant element in the composition of international reserves. In the negotiations on monetary reform we have taken an active interest in the characteristics of the SDR and have welcomed the revised valuation and interest rate formulas.

IMF quota

A third element of the agreements at the Jamaica meeting to which Sweden attaches great importance is the increase in the general resources of the IMF as a result of the sixth general review of quotas. The quota structure endorsed by the interim committee implies an increase of the Swedish quota by 38.5 per cent or from SDR 325 to SDR 450 million. This large increase in relation to the average for industrialised countries reflects the fact that Sweden's quota has been rather low in comparison with quotas of other small industrialised countries. The global quota increase, as well as the temporary widening of each credit tranche in the Fund, will make available considerable additional resources, which are necessary for meeting the balance of payments needs of members.

The fact that Sweden has opted for participation in the European currency system has of course had its influence on domestic monetary policy. The limitation in our freedom of action which such a choice has implied is however probably not greater than it would have been under any form of managed exchange rate relationship. As for

developments in the future one has to realise that the international situation is still characterised by rapid inflation and balance of payments imbalances.

On the other hand the disturbances which have taken place have at least proved that a system of floating currencies is not the panacea which it has been claimed to be for so long by many economists. Rather these disturbances have led to a realisation that strong efforts towards stability are now called for. It would, however, today be rather optimistic to assume that in the short run it would be possible to achieve a formalised cooperation with prescribed limits in the fluctuations between the present snake currencies and the dollar. Such a development would, however, be strongly welcomed on the Swedish side.

Interview : H. P. Nanda

Wanted: market surveys for measuring size of the market

Mr H.P. Nanda, president of the Associated Chambers of Commerce, believes that many industries in our country have excess capacities against current demand because new units were set up while neither the government nor the entrepreneurs undertook scientific market surveys. He has in this exclusive interview with S. P. Chopra, Acting Editor, *Eastern Economist*, elaborated this point with reference to the tractor industry with which he is intimately associated for the last two decades. He has also suggested on the basis of his experience the mode of workers' participation in management which will be of enduring value. He is a supporter of the value added tax (VAT) which, in his view, will provide relief to many industries in this country which have been crippled by multiple taxes.

Q. *Mr Nanda, at a recent press conference you are reported to have said: "Both the public and the private sectors of the Indian economy have functioned with a sense of cooperation not hitherto in evidence." Will you kindly illustrate this statement with reference to concrete cases of cooperation between the two sectors?*

A. The answer to this question lies in two parts. First, there is the almost identity of views on major issues between the two sectors with the result that the leaders in both the groups have started talking in the same language. In a way, they are operating at the same wave length after many years

Second, there are areas in which all the old inhibitions are gone and the two sectors are joining hands to utilise all the available capacities, whether in the public or the private sector. Instead of creating independent capacities, they are making use of the capabilities and the capacities available with each other. From the larger economic sense, you will agree, it is good for the country.

There was a time when the budget was a *fait accompli*; today things are different. Last July, I brought it to the notice of the Finance minister, Mr C. Subramaniam, that the business community is consulted after the budget when minor points of irritation or inconsistency are brought to the notice of the government. Why not take the businessmen into confidence before the budget? Why not trust them? Tell them that the government needs Rs x crores for balancing its internal budget and y millions of dollars for foreign exchange. And the new levies should be imposed after consulting the industrialists and the businessmen. Luckily, government has understood the utility of this approach. The Finance minister consulted the businessmen before the budget. Many of the suggestions made by us were incorporated in the budget this year. We suggested that if you reduce the rates of tax, your tax collection will move up. We conceded that a whip should be used against the dishonest but all the same steps should be taken that the honest taxpayer is not harassed. It is a good sign that the government has collected by way of taxation much more than it expected, thanks to its accepting the advice of the business community.

We were also able to convince the Finance minister that excessive taxation was counter-productive. Take the case of chemical fertiliser. Heavy taxation had increased its price to a level that the farmer refused to use it, resulting in reduced productivity. What is the use of putting up so many factories of fertilisers—each costing not less than Rs 160 crores if the fertiliser produced is not going to be utilised (ten years ago this unit cost no more than 30 to 40 crores of rupees)?

Q. *Industrial production in January-May this year has risen by nine per cent in relation to the corresponding period last year. This is a good sign but in your statement at the last press conference you had referred to the concern that is being caused by the absence of demand in some sections of industry. Which are the industries where sluggishness in demand is hurting the production units?*

A. These industries are mostly in the engineering sector. They are suffering because of certain misconceived notions which the policy-makers nurture at present. The prevalent view in the government is that only a few commodities or products needed by the villager or the low-income urbanite are the essential goods; the rest are luxuries. Even a bicycle or a motorcycle is deemed to be a non-essential item. These people forget that a motor cycle or a bicycle is family vehicle. It is essential for a man with limited income as it helps him to reach his place of

work in the most economic way. There should be no excise or other taxes on bicycles, motor cycles and similar goods. Do not forget that the bi-wheeler is a vehicle which saves the country valuable foreign exchange which would otherwise be spent on crude oil imports if the public transport was used.

Again, let me draw your attention to another glaring fact. In the private sector, excess capacity has been created in many industries. Both the government and the industrialists are to be blamed for it. No market surveys were conducted. New units were applied for, licences were issued, both rupees and foreign exchange resources were made available and the factories came up. No one cared to find out the size of the market within the country. No one cared to find out if the product being manufactured had an export possibility.

Take the case of tractors. The government received no less than 28 applications for the grant of licences for the manufacture of tractors. Why were so many industrialists willing to enter this field? Because they learnt from the market that the demand for tractors was in excess of supply. The five manufacturing units including Escorts were not in a position to feed the market according to its requirements. Not one of the applicants tried to find out if the shortage was real or man-made. It is a separate question that having enjoyed the sellers' market for years, the industrialists in this country have forgotten the art of salesmanship, marketing and after-sales service. No less than 28 letters of intent were issued for manufacturing 250,000 tractors a year. Only 15 of the letters of intent were converted into licences; the rest dropped out. Only 12 reached the stage of production with total current installed capacity of 70,000 tractors a year. A market survey (NCAER) revealed that if the prices of tractors remained at the present level and the farmer was able to get financial assistance from the banks and other rural agencies the size of the tractor market will be 70,000 to 80,000 units a year *not today but in 1979-80*. The demand for tractors has been stagnant at 32,000 to 34,000 for the last three to four years. In 1960, the price to the farmer of the Ford tractor (46 HP) was Rs 23,000; today it is over Rs 65,000 in some states. How come, the price has shot up like that? It is the result of cumulative excise—excise on excise. A tractor consists of 3000 components. Each component and raw material used attracts either excise duty or import duty or both, besides the octroi, inter-state and state sales tax and other local taxes. State sales tax varies from one per cent to 13 per cent on tractors, implements and spare parts.

With shrunken market, IH, Escorts, TAFE, HMT, Kirloskars are able to produce and market only 30 to 60 per cent of their installed capacities.

And the same story was repeated in the case of the tyre industry. There was a time when a tyre in the market commanded 50 to 60 per cent premium. The conclusion drawn from it was that there was fantastic demand for tyres in the country and anybody who set up a unit could mint money. But look at the plight of the new tyre units. With capital cost of a new tyre unit at more than Rs 30 crores, the cost of the tyre has increased while the size of the tyre market has shrunk because of the sharp increase in oil prices. Result: the new tyre units would be moving into the red. The old units with capital cost of around Rs 10 crores can certainly compete but not those with capital cost three times this size. But behind this folly lies the basic lacuna; most of these units did not undertake a scientific market survey before venturing into this field. The long-awaited Marathe Committee's recommendations for fiscal and monetary concessions to High Capital Cost Industry are still awaited to be implemented.

Then, there is the *'Surtax'* which was imposed more than a decade ago to tax those units which made more than 10 per cent profit. What is the rationale for such a low base now when the banks charge more than 16 per cent on loans advanced. Anyhow, the Finance minister has accepted this suggestion partially and the Surtax on company profits is applicable for profits above 15 per cent. When the bank rate was 4 to 5 per cent and lending rate 8 per cent, the Surtax was made applicable beyond 10 per cent. Now that the bank rate is 9 per cent, and lending rate 15 per cent and more the Surtax should have been made applicable beyond 20 per cent. Anyhow, what is important is that a regular dialogue has started with the government through advisory councils which is proving very useful.

Q. *You were dilating on the genesis of the current recession. Will you elaborate it?*

A. It is the view of the policy-makers in this country that only the mass consumption items are the necessities of the people. Goods which do not belong to this list are branded as luxuries. Take the case of refrigerators and airconditioners. An air-conditioner which was selling for Rs 3,500 four to five years ago today costs Rs 11,000 and more. The result is that the demand for airconditioners has shrunk. Some of the leading manufacturers of airconditioners are piled with over six months production as unsold stocks. Warehouses are bulging. The interest charges are mounting. The burden of excessive and compounded excise duties has crippled this industry.

Even if the excises are reduced, the size of the current domestic market will not expand even at the end of the current Plan so as to engage fully the capacity which has been set up.

As stated earlier, capacities in these industries were set up without conducting market surveys. In a way, we have done a good thing unwillingly when capital costs were much lower—we have set up excess capacity (current demand) and we have also trained our man-power. Now the main task is to exploit this capacity by increasing domestic demand and pushing up exports, thus avoiding unemployment of the employed.

More capital investment — both imported and indigenous machinery—is to be constantly maintained for both expansion and modernisation of our products attuned to global markets—generate employment for our highly skilled man-power.

Again, the emergency has improved employer-employee relations. Bonus has ceased to be a burden. And production is moving up. Earlier we had shortages because we were not utilising the available capacity; now we are operating our units at higher capacities and we are faced with diminishing demand and higher production — increased finished goods inventories and first time in two decades the industry is in 'Buyer's Market' and required to meet the challenges ahead.

Q. *Recently there has been considerable discussion in regard to the workers' participation in industrial growth through what is popularly known as a "Workers' Sector". How far, in your opinion, is this a workable proposition in industry?*

A. In my view, there are three different ways in which the workers can participate in the scheme for expanding industries in our country. First, there is the participation of workers in the management board of the board of directors. It is assumed that one of the workers is elected to the board of directors so that he can safeguard the interests of the workers in decision making policies of the board. I think this is not an advisable method of workers' participation because either the management can pick up the man of its own choice and control the working force through him which certainly is not a true representation and participation of the workers in the management or such persons will be pushed on to the board of directors by the strong multiple labour unions as will turn the board into a heterogeneous collection of people. Such a board will never be able to work as a team. Hence policy-framing and decision-making will be hampered. Also, there are very few among the floor level workers who possess the long-term vision for the progress and development of industry. The participation of any one of them in the board of directors or management will not bring about a meaningful participation.

Q. *Any other way of associating workers with management?*

A. The second mode of participation by workers consists of the workers' buying the shares of companies in which they are employed. You are aware that in the case of new capital issues to the general public there is no ban on employees of the company participating in the purchase of these shares. I wonder if workers would like to buy these shares at the present time when they know that most of the shares recently issued are quoted below par within a few months of the issue on the stock exchanges of this country.

Then there is the third method of workers' participation which in my view is workable. Here I will suggest that independent large industries should create separate units preferably public limited companies whose shares are held at least 75 per cent by the workers. The parent unit should supply free of cost the expertise relating to management, production and marketing and should assist in the training of the technicians, the engineers and the supervisors. The board of directors of this unit should consist of a majority of workers, technicians and engineers who should also be the main shareholders. I have personally tried this mode of workers' participation by the establishment of "Escorts Employees Ancillaries Limited". Escorts has secured technical collaboration from Japan and industrial licence but passed it on to the employees for the manufacture of carburettors (under Japanese licence). Capital for this enterprise is subscribed by nearly 1000 employees of Escorts Limited or the employees of ancillary suppliers to Escorts Ltd and no one is permitted to hold capital of more than Rs 25,000. Escorts' workers would have paid for the capital by six monthly equal instalments from their savings. The managerial and marketing expertise is provided by Escorts Ltd free of cost. I think this is the alternative which is the best and which could be developed by large industries in public or private sector, especially is areas where such units could by ancillary suppliers or producers of products made out of the basic materials produced by the parent unit.

Q. *In view of the continued recession in some sections of the engineering industry, what are the prospects for increasing our exports?*

A. Let us be clear about one thing. For stepping up our exports in the engineering sector, we must have strong and proven domestic demand. As I have stated earlier, the multiple impact of excise, inter-state sales tax, octrois on raw materials and components etc. has been crippling. Ancillaries have pushed up the cost of ultimate excisable products such as refrigerators, television sets, airconditioners, scooters, motorcycles, bicycles, passenger cars, automobiles, tractors, and farm machinery.

Q. *In your view, how far is the value added tax (VAT) the best method of obviating multiple taxes?*

A. I think VAT should be adopted in this country so that the industrial units which because of excessive taxes are working only at half of their licensed capacity, can be made to work at full capacity and the consequent increased production can be made available to the people at reduced prices. For example, the manufacturers of vehicles will not only pass on the actual excise relief to the customer but will also be able to reduce the price further because of the benefits of the economies of scale. In fact, all the

economic wisdom should be employed to revitalise the industry which otherwise will become sick and will result in creating additional unemployment. There are examples where in order to avoid increasing unemployment the government had to step in and take over certain units. It is essential that government policies in the first instance should be such as to not turn sound working units into sick ones. Industry is extremely happy to learn that VAT Commission is being set up by the Finance ministry under the chairmanship of Mr L.K. Jha and it is hoped that its implementation would not face the same fate as the Marathe Committee's report and recommendations for High Capital Cost Industry. To accelerate the removal of recession on account of high prices—till VAT system is introduced—it would be essential for the government to extend the policies applied in reduction on excise on fertilisers and availability of tyres and batteries free of excise duties to passenger cars and tractor manufacturers broaden the area of exemption to products where the ancillaries and ultimate products are both excisable and therefore victim of recession and ultimately sick industries.

Similarly the accepted fiscal concessions made available to industry in backward districts and areas may be extended for expediency to High Capital Cost Industry till such time the Marathe Committee recommendations can be implemented.

The drop in costs through the reduction in excise as applied to fertilisers to generate the demand of that agricultural input so essential to accelerate agricultural productivity should be extended to other agricultural inputs like diesel, pesticides, farm machinery etc. so that farmers can produce more by optimum use of these agricultural inputs for national buffer stocks and surpluses for export.

All the Gulf countries are natural markets for our agriculture and horticulture products—including processed milk products.

TRADE WINDS

Indian Iron Taken Over

THE INDIAN Iron and Steel Company has been taken over. An ordinance issued by the President on July 17, enables the union government to acquire all such shares of the company as are held by the parties other than state governments, Steel Authority of India, LIC, Unit Trust of India and general insurance companies. The management of the company had been taken over in 1972.

Financial Aid

Indian Iron thus becomes a government company now and measures will soon be taken to restructure it suitably. The necessary financial assistance will be provided to make it a viable unit. Compensation to shareholders will be paid at the present fair value of share which has been determined as Rs 4.70 for each ordinary share of the face value of Rs 10 and Rs 32.75 for each preference share of the face value of Rs 100. The total amount of compensation payable is about Rs 7.24 crores.

The management of the IISCO was taken over by the government to ensure proper management of the company and to arrest the fall in the production of its steel plant at Burnpur.

Deposit Linked Insurance

The government has announced the Deposit Linked Insurance Scheme for workers covered by Employees' Provident Fund and the Coal Mines Provident Fund. It will provide protection to nearly 602,000 members of the Coal Mines Provident Fund Scheme and 7.8 million members of the Employees Provident Fund at present. An ordinance has been promulgated by the President, Mr Fakhruddin Ali Ahmed, recently to amend the Coal Mines Provident Fund, Family Pension and Bonus Scheme Act, 1948. The Employees Provident Funds and Family Pension Fund Act, 1952, the Wealth-tax Act, 1957, and the Income Tax Act, 1961. This ordinance will be called the Labour Provident Fund Laws (Amendment) Ordinance, 1976. It shall come into force on such date as the central government may, by notification in the official gazette, notify.

The scheme provides for that in the event of the demise of a worker while in service, the person(s) eligible to receive provident fund balance, would be entitled to an additional payment, equivalent to the average balance in the provident fund of the worker during the preceding three years subject to a maximum of Rs 10,000. In order to get benefit of the scheme, the workman will have to keep a minimum balance of Rs 1000 in the provident fund, but he will not be required to pay any premium for the benefit of such insurance cover. The premium will be paid, in the shape of an additional contribution, by the employer and the central government in the ratio of 2:1. The premium will not be treated as perquisites for purposes of Income Tax Act and thus this premium will be free of income tax. The income from the Deposit Linked Insurance Fund is also exempt from Income Tax and Wealth Tax Acts. For the purpose of determining the provident fund balance, the sum total of contribution by the employee and the employer due during the relevant period, whether paid or unpaid to the fund, together with the interest thereon will be taken into account.

Gold Sale by IMF

The International Monetary Fund (IMF) auctioned 780,000 ounces of gold on July 14, in the second of a series of sales to raise money to help the world's poorest countries. Profits from the sales, in which 25 million ounces of IMF gold will be auctioned over the next four years, will finance a special trust fund for poor nations. The trust fund will lend money to about 60 countries with annual per capita incomes of less than $350. The loans, which carry an interest rate of only one-half of one per cent, are to help these countries, pay for their imports. The IMF realised at the first auction on June 2 more than $65 million against the sale of 780,000 ounces at $126 per ounce—the market price at that time. As it did after the first auction, IMF will now announce only how much gold it sells and the price. It will not name the successful bidders.

Increase in Exports

The latest provisional data for exports (including re-export) for the month of May 1976 are placed at Rs 373.74 crores, showing an increase of about 47 per cent over the export of Rs 254.56 crores in the corresponding month of the previous year. The imports during the month totaling Rs 341.65 crores were higher by only three per cent as against imports of Rs 331.34 crores in May 1975. The cumulative exports for the two months ending May 1976 amounted to Rs 727.77 crores, showing a growth rate of about 46 per cent over the exports of Rs 498.24 crores in April-May 1975.

As against this the aggregate imports during April-May 1976 stood at Rs 668.98 crores which were lower by 2.3 per cent over the corresponding period of the previous year which stood at Rs 684.45 crores. As a result of a relatively much higher growth rate in exports in both the months of April-May 1976 as compared to the corresponding period of

the previous year, India's foreign trade during April-May 1976 yielded surplus of about Rs 58.8 crores as compared to a deficit of about Rs 186.2 crores in April-May 1975.

Double Taxation Agreement with UK

Talks are to be held between India and United Kingdom for finalising an agreement on double taxation. In this connection a British delegation is expected in New Delhi in the first week of November 1976. The two countries sorted out most of the problems when they met earlier this month in London. The Indian delegation was led by Mr S.R. Mehta, chairman, Central Board of Direct Taxes, ministry of Finance. A wide measures of agreement was reached in these talks. It is expected that the agreement on double taxation between the two countries will be finalised at the New Delhi round.

Impounded DA

The first instalment of the impounded additional dearness allowance is to be repaid to the employees this month. The government has confirmed in response to a number of enquiries that an employee has the option to retain the amount due to him as repayment in this month in his deposit account until superannuation or till such date as may be notified by the central government. If such an option is exercised, the amount thus retained in the deposit account will continue to get the same rate of interest as provided under the Act i.e, 2½ per cent over and above the maximum bank deposit rate. The present rate of interest on compulsory deposit is 12½ per cent a year. The retained amount together with the simple interest will be repaid to the employee on his superannuation or on the date may be notified by the government under the Act, whichever is earlier.

EEC Concessions for Third World

The European Community has proposed a number of measures in favour of the Third World. The European Common Market Commission announced in Brussels on July 1 that it considered that in 1977 about 65 per cent of the volume of trade of the developing countries with Europe would benefit from customs franchises. These franchises are for manufactured products, transformed agricultural products and textiles. Sir Christopher Soames, the European Community Commissioner for External Relations, stated that 6.5 billion dollars of industrial products and 1.5 billion dollars of agricultural products coming from the developing countries would be partially or totally exempted from customs duties if these proposed preferences were adopted by the Council of Ministers of the Nine. These preferences represent an increase of 51 per cent for industrial products, 24 per cent for agricultural products and 4 per cent for textiles. Sir Christopher added that these increases would allow the Community to participate in the development of the most affected countries which were not associated with the Community.

No Takeover of Jute Mill

The centre has no intention of nationalising the jute industry or any unit of the industry, according to Prof D.P. Chattopadhyaya, union Commerce minister. The Centre's intervention, if absolutely necessary, may be confined to changing the management of one or two jute mills in the interest of production and labour. Even on this count, the Centre has not yet taken any decision, Prof Chattopadhyaya told newsmen in Calcutta on July 18.

Iron Ore for Japan

A doubling of iron-ore exports from India in the next four years, to Japan which continues to be the major customer, has been forecast in an expert study on market possibilities for Indian iron-ore for the decade beginning 1980. Prepared for the Commerce ministry and the Minerals and Metals Trading Corporation, the study notes that the Indian share in the world market could touch the 50-million-tonne mark in 1980, as against the last year's target of 25 million tonnes, and could rise to 65 million tonnes by 1985 and 80 million tonnes by 1990. According to the study, market possibilities of iron-ore exporting countries—present and new comers excluding India—total 515 million tonnes by 1980, 600 million tonnes by 1986 and 710 million tonnes by 1990.

After analysing trends in world steel output, the study is of the view that the world over, the growth rate in steel will be about four per cent in the seventies and about three per cent in the eighties. In terms of tonnage, the world steel output will be around 545 million tonnes by 1990.

Front-runners

The EEC, the USA and Japan will continue to be front-runners in the total output of steel. The study notes that notwithstanding the competition from Australia and Brazil, it should be possible for India to account for 15 per cent of the total imports of iron-ore by Japan during the period 1980-90. On this basis the probable level of export to Japan by India will be 27 million tonnes for 1980, 30 million tonnes 1985 and 35 million tonnes for 1990.

Workers' Participation in Public Sector

In pursuance of the policy laid down by the government to introduce progressive participation by workers in increasing industrial production, the Department of Heavy Industry had issued instructions to all public sector undertakings under its control. This has resulted in steady implementation of the scheme to form Joint Councils at shop, department and plant levels to consider matters of common interest like increase in production and productivity, development of skills and adequate facilities for training. Such joint councils have been constituted in the Bharat Heavy Electricals Limited (Hyderabad and Hardwar units), Bharat Heavy Plate and Vessels, the Heavy Engineering Corporation, the Mining and Allied Machinery Corporation, the Triveni Structurals Limited, Scooters India Limited, Jessop & Co, Gresham & Craven, the Machine Tool Corporation of India, Arthur & Butler, Burn and Co, the Indian Standard Wagon units at Howrah, Jabalpur, Salem and Asansol and the Britannia Engineering Works. All these units are working under the supervision of the department of Heavy Industry. The joint councils are expected to start functioning very soon in the remaining units of BHEL, while the Hindustan Machine Tools has also finalised a scheme for workers' participation.

Public Sector: 1976-77

The government has set the target of 29.1 per cent growth for public sector undertakings under the department of industrial development during 1976-77. According to a recent production review, the target figure, in terms of value, has been worked out at Rs 126.2 crores compared to the actual production of Rs 97.8 crores during the previous year (1975-76). In the two months of 1976-77 (April and May 1976), the total production by nine public sector undertakings under the department of industrial development was valued at Rs 16.44 crores against the production figure of Rs 10.83 crores for the corresponding months of 1975. The highest growth rate was achieved by the Cement Corporation of India (47.9 per cent), Instrumentation Limited (47 per cent), Tannery and Footwear Corporation of India (40.9 per cent) and Hindustan Cables Limited (38 per cent).

IDBI Incentives for Small Units

With a view to encouraging small-scale units to introduce or improve quality control systems and step up the quality of their products, the Industial Development Bank of India (IDBI) has decided to offer certain financial incentives to such units within the framework of its Refinance Scheme. Uunder the scheme of incentives which has come into force from July 1, 1976, small-scale units which obtain ISI mark for their products will be provided with a rebate of ½ per cent per annum in interest on the amount of refinance outstanding. The interest rebate will apply from the quarter in which ISI certification is obtained by the units and will hold good as long as the licence to use ISI mark is operative.

The IDBI will provide 100 per cent refinance in respect of loans granted by banks, state financial corporations and other eligible institutions without any margin for purchase of quality testing equipment. This facility will be subject to the industrial unit producing a certificate from ISI that the equipment is essentially needed for introducing or improving the in-plant quality system. Certain sophisticated industries covering a number of items calling for high degree of precision and quality control have been reserved for development in the small-scale sector. The exports of the small-scale sector are on increase and there is need for encouraging manufacture of products conforming to international standards of quality.

Zambia Devalues Kwancha

Zambia, which has recently experienced an economic crisis, has devalued its currency by 20 per cent. All foreign exchange dealings have been suspended. Announcing the devaluation, the Finance minister of Zambia stated that purpose was to reduce the balance of payments deficit which is believed to be running at around $100 million a year. Henceforth, the Kwancha is to be pegged to SDRs, and not to the dollar.

Fertiliser Output

Fertiliser production in the country registered a spectacular rise during the first quarter of 1976-77 when nitrogen production for the months of April, May and June reached a level of 417,000 tonnes against the production of 275,000 tonnes during the corresponding period of the previous year, an improvement of 51.6 per cent. Of this production, 406,000 tonnes of nitrogen came from the existing plants, indicating a substantial improvement in capacity utilisation.

The production of phosphatic fertilisers, which had slumped last year, has shown a revival. In the first quarter of the current year 91,900 tonnes of P_2O_5 were produced as against 71,900 tonnes in the corresponding period of last year, marking an improvement of 27.7 per cent. With the encouraging start in fertiliser production, the ministry of Chemicals & Fertilisers are confident of fulfilling the national target of 1.95 million tonnes of nitrogen and 480,000 tonnes of P_2O_5 set for the year 1976-77. During 1975-76, the target of 1.5 million tonnes of nitrogen had not only been achieved but had also been exceeded by 35,000 tonnes.

No Credit for Tax Evaders

The government has decided that a person who is found guilty of concealment of income or wealth or is convicted for tax fraud by a court on prosecution launched by the Income-tax department, will not be given credit facility exceeding Rs 100,000 by any scheduled bank for a period of three years. This decision has been taken in pursuance of the recommendation of the Wanchoo Committee to debar tax evaders from enjoying credit facilities with the scheduled

banks. The three categories of persons in whose cases the denial of credit facility will operate are: Category I—Persons in whose cases penalty is levied under (i) Section 271 (1) (c) of the Income-tax Act, 1961; or (ii) Section 18 (1) (c) of the Wealth-tax Axt, 1957, where the amount of penalty levied is Rs 5,000 or above and if disputed in appeal or revision petition, the levy of penalty or Rs 5,000 or above is upheld by the appellate tribunal or commissioner. Category II—Persons whose conviction is ordered by a court for an offence under (i) Section 277 of the Income-tax Act, 1961; or (ii) Section 35-D of the Wealth-tax Act, 1957 or (iii) Section 199 or 200 of the Indian Penal Code. Category III — Persons whose conviction is ordered by a court for an offence under (i) Section 276-C of the Income-tax Act, 1961; or (ii) Section 35A of the Wealth-tax Act, 1957.

Foreign Travel Scheme

With effect from August 1, 1976, persons wishing to proceed abroad under the Foreign Travel Scheme 1970 will have to submit the declarations in the modified prescribed form for approval to the offices of the Exchange Control Department of the Reserve Bank only through the airline or shipping companies or licenced travel agents, as in the case of 'P' form applications. The present practice, under which declarations are submitted direct to the offices of ECD and after obtaining the approval, tickets are puchased from the airline or shipping company or travel agent concerned, will be discontinued from that date. The modified prescribed forms for the declarations will be available with airline or shipping companies and licensed travel agents. Approvals granted by the Reserve Bank on FTS forms will be valid for 45 days only. If travel is not undertaken during this period, the approvals will have to be revalidated by the Reserve Bank.

Porous Mass Plant at Allahabad

A Porous Mass Plant has been installed at Naini, Allahabad, on a turn-key basis by Engineering Projects (India) Limited (EPI), a public sector contracting company under the ministry of Industry and Civil Supplies. When the plant starts production, it will save foreign exchange to the tune of about Rs 75 lakhs annually. The plant has an annual capacity of 10,000 cylinder fills.

New Product

The porous mass, a monolithic chemical substance, is manufactured out of diatomaceous earth, slaked lime, asbestos, etc., mixed in a specific ratio and made to react at high temperature and pressure. This monolithic mass, has a porosity as high as 90-92 per cent. It occupies the inside volume of the acetylene cylinders, so that the small pockets of gas on filling are isolated from one another, thus minimising the possibility of explosion. Acetylene gas is very widely used for oxy-acetylene flame cutting, heating and welding, in construction and other industries. A variety of non-standard equipment installed in the plant, such as autoclaves with quick opening devices, were developed by EPI through indigenous sources. EPI is at present implementing a large number of industrial and engineering projects with a total value of Rs 170 crores, both in the country and abroad. The company executes projects in the fields of sugar, material handling, chemicals, furnace, coke ovens, civil and structural works.

Export of Refrigerators

The Voltas division of Tata Exports Limited, has bagged a substantial export order of 1000 refrigerators, 160-litre capacity and 500 water coolers 40 l/hr capacity to Iraq. Traditionally, Iraq used to import refrigerators and water coolers from Japan and Europe. This is the first time, India exports refrigerators to Iraq. The breakthrough came in the wake of a trade delegation from Iraq, headed by the Minister of Foreign Trade. After a visit to the Thana works of Voltas by the Iraqi Trade Delegation, sample units of refrigerators and water coolers were air-lifted to Baghdad. After throough testing by the technical committee of the Iraqi Trading Company, a maiden order for 1000 refrigerators and 500 water coolers was released about Rs 18 lakhs in foreign exchange.

Institute of Public Finance & Policy

The union minister of Finance, Mr C. Subramaniam, inaugurated the Institute of Public Finance and Policy on July 20. The main objectives and functions of the Institute are: (i) continuous study of the fiscal system and measurement of the effect of budgetary policy on the economy; (ii) training of official of the union, state and local governments; and (iii) operational (advisory and research) work at the request of the governments. In particular, research work would focus on (a) the effects of taxes on allocation, distribution and incentives; (b) the measurement of the impact of budgetary changes on aggregate demand and prices; (c) forecasting of revenues and expenditures; (d) inter-governmental relations with special reference to the efficiency and equity aspects of the transfer of resources from the union government to the states; (e) finances of local authorities and (f) investment and pricing policies of public enterprises.

Names in the News

Mr H.P. Nanda, president of the Associated Chambers of Commerce and Industry, has been appointed chairman of the Development Council for Shipping Industry. The council is required to make recommendations on various aspects connected with the development of shipping industry.

COMPANY AFFAIRS

TISCO

MR J.R.D. TATA, chairman of the Tata Iron and Steel Co Ltd, voiced his concern at the unrealistically low prices of the Indian steel and its products, at the annual general meeting of the company, for the year-ended March 31, 1976. According to Mr Tata, the present ills of the industry arise out of two factors, fixation of prices below cost and high rates of excise duties.

Uneconomic Prices

Comparing the prices of steel and its products in this country with those prevailing in other countries, he said that the Indian steel industry is compelled to sell, on the average, at half the price earned by the steel industry in other countries, although the capital cost of putting up a steel plant in India is no lower than that in other countries. Mr Tata said that the government should cease compelling the industry to become a milch cow for the benefit of other industries.

Reviewing the world economic scene, Mr Tata was happy to note that world economy was emerging from the recession which had plagued it during the last two years. This, in his opinion, would increase the demand for steel in the international market and would offer tremendous opportunities to our country to export.

Mr Tata assured the shareholders that the company was in many ways in a better shape than it had been for a long time and every effort will be made by the management to raise profit-earning potential both at the cost and revenue end of the operations. The chairman was optimistic in regard to the company's long-term future, subject only to government policies in regard to steel prices.

Central Bank of India

The total deposits of the Central Bank of India for the year ended December 31, 1975 increased by Rs 153.76 crores to Rs 1,180.53 crores as against an increase of Rs 93 crores during the preceding year. Advances of the bank at the end of year stood at Rs 830.29 crores recording an increase of Rs 158.34 crores over 1974.

Credit needs of the priority sector continued to receive special attention of the bank. The priority sector advances (including exports) rose from Rs 216.84 crores in December 1974 to Rs 246.86 crores at the end of December 1975, recording an increase of seven per cent. Outstanding credit to weaker sections, at the end of the year stood at Rs 82 lakhs as against Rs 49 lakhs in the previous year.

During the year 1975, the bank opened 77 new branches, of which 47 were opened in rural and semi-urban areas and 30 in urban and metropolitan areas.

With a view to ensuring systematic planning and effectiveness of agricultural credit, the bank formulated new schemes covering compact areas. At the end of 1975, 288 such schemes were in operation as against 240 schemes in the previous year.

Warner Hindustan

The net sales of Warner Hindustan Ltd for the year ended November 30, 1975 rose to Rs 877.20 lakhs as against Rs 834.38 lakhs in the previous year. The profit of the company, however, declined marginally to Rs 35.44 lakhs as against Rs 44.10 lakhs in the preceding year. The decline in profitability in the year under review was due to an increase in the cost of imputs and shut-down of the basic chemicals plants for the major part of year.

The company's exports during the year amounted to Rs 26.17 lakhs. The directors of the company have recommended an equity dividend of 23 per cent for the year as against 11 per cent in the preceding year.

Hoechst Dyes & Chemicals

Satisfactory progress was maintained by Hoechst Dyes and Chemicals Ltd in its financial year ended December 31, 1975. The sales of the company increased to Rs 45.25 crores in 1975 from Rs 40.46 crores during the preceding year, showing an increase of 12 per cent. The company registered a significant increase of 39 per cent in the sales of dyestuffs from Rs 4.76 crores to Rs 6.63 crores, due to better availability of products. The profit before depreciation, development rebate, reserves and taxation fell from Rs 3.11 crores to Rs 1.80 crores.

The directors have, however recommended a dividend of 11 per cent which added to the interim dividend of six per cent makes a final dividend of 17 per cent for the year under review.

Subject to the approval of the Controller of Capital Issues, the directors propose to capitalise Rs 54 lakhs out of general reserve and issue 540,000 equity shares of Rs 10 each as fully paid bonus shares in the ratio of two bonus shares for every five equity shares held by the shareholders.

There was a marginal

fall in the exports of the company from Rs 25.68 lakhs in 1974 to Rs 24.35 lakhs in the year under review.

Guest Keen Williams

The gross turnover of Guest Keen Williams Ltd, for the year ended January 3, 1976 (53 weeks) registered a modest increase from Rs 75.10 crores in 1974 to Rs 80.54 crores. Despite the increase in turnover the pre-tax profit of company dropped sharply from Rs 10.67 crores in 1974 to Rs 6.41 crores in the year under review. The net profit of the company was Rs 2.56 crores as against Rs 3.89 crores in 1974.

The directors of the company, have however, enhanced the equity dividend from Rs 1.15 last yearto Rs 1.56.

The company had a disappointing year in exports as compared to the previous year. The total value of exports of the company during the year under review were Rs 226.45 lakhs as against Rs 210.29 lakhs in the previous year.

Boots (India) Ltd

The sales of the Boots Company (India) Ltd increased from Rs 8.67 crores to Rs 9.63 crores in the year-ended December 31, 1975, registering a rise of 12.2 per cent. After making necessary appropriations for taxation and development rebate, the net profit was slightly lower at Rs 31.87 lakhs as against Rs 33.62 lakhs in 1974. The directors of the company have recommended an equity dividend of 12 per cent for the year 1975. The directors have also recommended the issue of bonus shares in the ratio of one bonus share for each equity share held by the shareholders. The company is in the process of setting up a new chemical plant for the manufacture of Ibuprofen, in a backward district of Maharashtra.

Madhya Pradesh Financial Corp.

The working results of the Madhya Pradesh Financial Corporation for the year ended March 31, 1976 resulted in a profit of Rs 15.82 lakhs as against Rs 19.94 lakhs in the previous year. The corporation sanctioned loans amounting to Rs 379.76 lakhs as against Rs 562.82 in the previous year. During the year under review, the corporation created an all-time record by disbursing a sum of Rs 205.50 lakhs.

Small-scale sector and backward areas continued to be the main beneficiaries of its efforts. Out of 680 applications sanctioned since its inception, 516 were from the small-scale sector and 269 in the backward areas. The corporation has also sanctioned loans to the tune of Rs 50 lakhs under the IDA line of credit.

The only disturbing feature in the working of corporation has been the continuous default in the repayment of loans. As at the end of March 31, 1976, the default repayments amounted to Rs 225.35 lakhs, including Rs 125.85 lakhs in respect of suit filed accounts. The corporation is making all efforts to recover these defaulting loans.

News and Notes

Larsen & Toubro Ltd is exporting four units of milk powder mixing equipment to Egypt. The order from Misr Milk of Cairo was secured against stiff competition from multi-national manufacturers. Each unit has a milk recombining capacity of 6000 litres per hour. This is the first time that India is exporting such equipment.

Two organisations, **Voltas** and **Blue Star**, have achieved significant success in introducing their refrigerators and water-coolers in West Asian countries.

Voltas has bagged an order worth Rs 18 lakhs to export 1,000 refrigerators of 160 litre capacity and 500 water-coolers to Iraq. Traditionally, Iraq imported these items from Japan and Europe. This is the first time that India has made the breakthrough.

Blue Star has booked, in the first five months of the current year orders worth Rs 74 lakh for the supply of refrigeration and central air-conditioning plants, components and appliances to various West Asian countries. Its total exports, last year, were worth Rs 35 lakhs. The company hopes to export items worth Rs one crore this year. It has succeeded in entering two new markets — Saudi Arabia and Aden (Democratic Republic of Yemen). The company will be exporting 1,100 water-coolers worth Rs 25 lakh to Saudi Arabia. Initial trial supplies of water and bottle-coolers have already been sent to Aden. In Saudi Arabia, Blue Star is assisting the local distributors to set up services and repair centres for its products.

New Issues

Usha Atlas Hydraulic Equipment Ltd will be entering the capital market on July 28, with a public issue of 1,18,750 equity shares of Rs 10 each and 5000, 11 per cent redeemable cumulative preference shares of Rs 100 each for cash at par.

The new company will be manufacturing truck mounted hydraulic cranes for the first time in India. The company is promoted by Usha Telehoist Ltd in technical collaboration with Hy. Weyhausen GmbH of West Germany, who will be holding 37.5 per cent of the equity capital.

The proposed public issue will meet a part of the project costing Rs 75 lakhs.

Mohan Ortmann & Herbst Ltd will be entering the capital market with a public issue of equity capital worth Rs 67 lakhs in equity shares of Rs 10 each for cash at par. The subscription list which will open on August 2 will close on August 12 or earlier but not before August 4.

The company will be setting up an automatic bottling plant costing about

Rs 2.99 crores, and has already obtained the technical collaboration of Ortmann & Herbst GmbH of West Germany. The plant is expected to commence production in April 1977 and the first machine will be out by October 1977. The company will be producing 25 such plants per annum.

New Registrations

Two hundred and sixty-one companies were registered in India under the Companies Act during March last compared with 232 in previous month.

Out of these, 256 were registered with limited liability and five with unlimited liability.

The total authorised capital of the new companies registered in March amounted to Rs 82.47 crores against Rs 41.46 crores in February last, according to an official press release.

Of the new registrations, 15 were government companies with an authorised capital of Rs 61 crores. Among the 246 non-government companies, 24 were public limited companies and 222 private limited ones with an authorised capital of Rs 9.62 crores and Rs 11.85 crores respectively.

The largest number of companies registered during the month — 141 — fell under the broad industrial group of processing and manufacturing. The highest number of new registrations — 72 — was reported from the state of Maharashtra followed by Delhi with 39.

Twenty companies comprising four public limited and 16 private limited ones, with a total paid-up capital of Rs 45.03 lakhs were reported during March, 1976 to have ceased functioning either by going into liquidation or by being struck off under section 560(5) of the Companies Act.

Capital and Bonus Issues

Consent has been granted to five companies to raise a capital of Rs 239.90 million.

The details are as follows:

Mysore Power Corpn Ltd, Bangalore, has been accorded consent, valid for 12 months, to issue debentures of Rs 9.75 million, with the right to retain additional subscription to the extent of 10 per cent of the notified amount of Rs 97.5 million. The proceeds of the issue will be utilised for augmenting the company's financial resources.

City and Industrial Development Corporation Ltd Bombay, a public limited company having a paid up equity capital of Rs 20 million, has been granted consent, valid for a period of 12 months, for the issue of unsecured debentures of the nominal value of Rs 35 million to the general public. The proceeds of the issue will be utilised for augmenting the resources of the corporation.

Rural Electrification Corpn Ltd, a public company having a paid up capital of Rs 550 million, has been accorded consent for the issue of bonds of the value of Rs 100 million (with a right to retain excess subscription upto 10 per cent) for cash to the general public by a prospectus at a discount price of 99 per cent. The bonds will carry interest at the rate of 6 per cent per annum and will be redeemable after 10 years from the date of issue. The bonds will be payable to registered holders only. The proceeds will be utilised for augmenting the resources of the corporation. The consent order is valid for 12 months only.

Coromandel Agro Production and Oils Ltd., Hyderabad, has communicated to the government of its proposals to issue capital under clause (5) of the Capital Issues (Exemption) Order 1969, for Rs 6.5 million (inclusive of the capital of Rs 402,700 already raised) in the form of 590,000 equity shares of Rs 10 each and 6,000 redeemable cumulative preference shares of Rs 100 each, all for cash at par. The proceeds of the issue are to be utilised to meet a part of the finance required for the setting up of the undertaking in Prakasam Distt., Andhra Pradesh.

Unichem Laboratories Ltd, has been accorded consent, valid for three months, to capitalise Rs 900,000 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 seven equity shares held.

Dividend

(per cent)

Name of the company	Year	Equity dividend declared for	
		This year	Previous Year
Higher Dividend			
Paper Mills Plant	March 76	12	10
T.R. and Tea	Dec. 75	20	10
Premier Construction Co.	Dec. 75	10	2.08
Steward & Llyods	Dec. 75	12	4.5
Warner Hindustan	Nov. 75	23	11
Same Dividend			
TOMCo.	March 76	16	16
Colour Chem	March 76	12	12
Lower Divident			
New Commercial Mills	Dec. 75	Nil	6
S.R.P. Tools	May 76	Nil	3.75

Non-aligned news pool

RECORDS AND STATISTICS

THE FOLLOWING is the text of the constitution for the pool of news agencies of non-aligned countries adopted by the ministerial conference on July 13, 1976:

Preamble: The conference of information ministers and directors of the press agencies of the non-aligned countries consented to draw up a draft constitution of the press agencies pool of these countries.

Recalling the recommendations set down in articles 13 and 14 of the action programme for economic cooperation adopted by the fourth conference of heads of state of governments of the non-aligned countries from September 5 to 9, 1973 in Algiers.

Recalling further the recommendations set down in resolution VI of the ministerial conference of the non-aligned countries held from August 29 to 31, 1975 in Lima.

Colonial Past

Bearing in mind the call given by the Lima conference of foreign ministers of non-aligned countries to "cooperate in the reorganisation of communications channels dependent or which constitute a colonial inheritance and obstruct direct and rapid communications among non-aligned countries.

Noting the recommendations of the symposium held in Tunisia, in March, 1976.

Mindful of the significant gain from a greater dissemination amongst non-aligned countries of objective information about their economic, socio-political and cultural development.

Conscious of the need to built upon existing news exchange arrangements, within and amongst non-aligned countries and, in particular the experience already gained by the non-aligned press agencies pool on January 20, 1975.

Lima Mandate

Bearing in mind the mandate given by the Lima conference of foreign ministers of non-aligned countries to "draw up a draft constitution for the non-aligned press agencies pool".

Recommends that such a pool be set up with the following objectives, organisational structure and operating and financial arrangements.

The pool: Press agencies pool of the non-aligned countries agreed upon by the non-aligned countries is intended to achieve broad and free circulation among themselves of news, informative reports, features and photographs about each other, and also provide objective and authentic information relating to non-aligned countries to the rest of the world.

The non-aligned press agencies pool is not a supranational news agency. All pool-participating news agencies have the same rights in terms of the circulation of the material each makes available to the pool.

Equal Status

None of the pool-participating agencies has a dominant role. Cooperation is founded in the agreements reached on the basis of full respect for democratic procedure and equality.

The non-aligned press agencies pool is open to participation by press agencies wishing to participate as members in full standing of the non-aligned movement and of countries with observer status in the movement.

If a national news agency does not exist in a participating country, the comparable body in the field of news service from that country.

The coordinating committee of the pool can admit as an observer the liberation movements, international organisations and professional bodies and especially, UN, UNESCO among others which have as an objective the decolonisation of information in the world.

Objectives: (1) The pool of news agencies of non-aligned countries, is intended to improve and expand mutual exchange of information and further strengthen mutual cooperation among non-aligned countries, based on the decisions taken jointly at the meeting of the non-aligned countries, in their efforts to promote and attain their aims.

(2) Objective information is the basic premise of the pool, with emphasis on progressive, economic, socio-political and cultural developments as well as mutual cooperation and action.

Factual Information

(3) The pool is intended to facilitate dissemination of correct and factual information about non-aligned countries, their mutual co-operation, and other subjects of common interest, among non-aligned countries as well as international community in general.

(4) The pool is intended to fill the gap which exists in this field by providing further information about the non-aligned countries and their policies. News items included in the pool

could also be made available to other news agencies, mass communication media and other interested organisations.

(5) The pool is not intended to substitute news exchange arrangements already existing among non-aligned countries or to be a supranational news agency but to fulfil the above mentioned objectives.

Functioning: (1) Each participating news agency is entitled to transmit and to distribute news items within the framework of the pool.

Regional Centres

(2) All participating news agencies prepared to act as regional centres of redistribution of news items, within the framework of the pool, are welcome to do so, and to identify themselves for the purpose to other participating news agencies.

(3) All participating news agencies can send daily an agreed wordage to one or more of the distributing agencies as identified above.

(4) All distributing news agencies will provide in their daily transmissions or newcasts a mutually agreed duration of time to be devoted to distribution of news received from other participants.

(5) Each participating agency will itself prepare and select all their information on the basis of mutual respect and common interest which will be offered through the pool.

(6) The credit line of originating news should indicate both the agency concerned and the pool.

(7) The modalities of collection and distribution of news among participating agencies would be worked out through mutual agreement. The pool does not preclude bilateral arrangements between participating agencies or between them and other agencies, consistent with the objectives of pool.

(8) Each news agency will endeavour, to the full extent of its possibilities, to promote utilisation of the news and information carried by the pool, by publications and radio and television stations using its services.

(9) All pool-participating news agencies, including those acting as collector-distributors may maintain contact with all the other participating news agencies, keeping them informed on the quality of reception and, even, suggesting possible subjects and reports of particular interest to one or more agencies.

(10) Non-aligned countries which have no established news agency are not excluded from participating in the pool.

Close Cooperation

Coordination: (1) Co-operation among participating agencies will be on the basis of full respect for equality and democratic principles of functioning.

(2) Countries participating in the pool should meet at the level of governments and national news agencies at the beginning of each year, in which a conference of the heads of state of governments of non-aligned countries is to be held. At each such meeting, a co-ordinating committee will be elected (on the basis of equitable geographic representation) by the participants to facilitate mutual cooperation and attention to questions concerning the working of the pool. The coordination committee will hold a meeting at least once a year, or more frequently if it so decides, at a place to be decided by it. The chairman and other office bearers of the co-ordinating committee will hold office until the next coordinating committee is elected, as mentioned above.

Coordinating Committee

(3) The coordinating committee will work in close cooperation with the country nominated by the conference of the heads of state of governments of non-aligned countries as coordinator in the field of information.

(4) Participating countries and news agencies should keep in touch with the coordination committee with a view to keeping it informed of their experiences and problems within the framework of their co-operation with the pool.

Supplementary arrangements: 1. Participating countries will endeavour to extend the scope of their cooperation in the fields of exchange of features, photographs, specialised economic and cultural information, as well as the exchange of journalists and technical personnel and training facilities, through further consultations within the framework of the pool with the assistance of the coordinating committee wherever necessary.

2. The coordinating committee will collect, compile and distribute to all participants and keep up-to-date technical information regarding the facilities available with each participating news agency to ensure maximum possibilities for their co-operative utilisation.

Technical Aspect

2. The coordinating committee will also consider and explore possibilities for technical cooperation between participating news agencies to improve their respective functioning and facilities through exchange of technical information and personnel.

4. Participating countries should reach agreement on reciprocal reduction of cable rates, and on improvement of mutual communication facilities.

Financing: 1. The pool is founded on the principle of being a self-financing activity and each participating agency would bear the cost of its own participation. This means that the news agencies of origin, agencies handling editorial and transmitting work and those which transmit news items reports and information bear all the expenses of their own work.

2. News agencies receiving pool newscasts from collecting redistributing news agencies, will then distribute to their subscribers at their own cost, i.e. in keeping with the agreements reached with their subscribers.

Commercial banks in unbanked rural areas

THERE WAS a further major thrust of commercial banks into rural areas, especially areas where organised banking facilities were totally lacking, during the year ended June 1976, the seventh year of the nationalisation of 14 major banks in July 1969. The thrust was in the following five directions:

(i) opening of new branch offices in a large number of unbanked rural centres,

Rural Banks

(ii) sponsoring of 20 regional rural banks,

(iii) extending additional sizeable credit to agriculture and other priority/neglected sectors,

(iv) providing credit facilities to an increasing number of persons with small means, and

(v) granting financial support to sectors and activities identified in the Twenty-point Economic Programme — finance for procurement and distribution of essential commodities, assistance to landless labourers to whom lands are allotted, help to released bonded labour, bridging the credit gap created as a result of moratorium on rural debts, credit facilities for minor irrigation and better utilisation of ground-water resources, assistance to handloom weavers and holders of national road transport permits, and assistance for concessional supply of text books and stationery to students.

New branch offices were opened in 688 more unbanked centres between July 1975 and April 1976, in addition to the 1,445 offices opened in banked centres, or a total of 2,133 new offices. Including these, the total number of new bank offices opened since July 1969 and upto the end of April 1976 comes to 12,677, the share of unbanked centres being 5,900 offices. The performance of the State Bank of India, its associated banks, the nationalised banks and private sector banks in covering unbanked centres during the period from July 1969 to April 1976 is highlighted in Table I.

Tempo Maintained

The pace of expansion of branch network in rural areas was well maintained during the year. This is evident from the significant increase of 693 rural bank offices between July 1975 and April 1976, as against the increase of 559 rural offices in the corresponding period of 1974-75. As at the end of April 1976, there were 7,499 rural offices (accounting for 36.0 per cent of the total of 20,817 bank offices in all centres), against 1,832 rural offices (22.4 per cent of the total of 8,262 offices) in June 1969. The Table II indicates the spread of bank offices in rural, semi-urban, urban and metropolitan/port town areas at the end of April 1976 as compared with that at the end of June 1969.

Annexure I (p212) shows the group-wise number of bank offices functioning in the different categories of centres as at the end of June 1969 and April 1976.

Following the establishment of 12,677 new branches during the period July 1969 to April 1976, the average population per bank office has been reduced considerably from 65,000 in June 1969 (1961 census) to 26,000 in April 1976 (1971 census). Special efforts continue to be made by banks to open more bank offices in the States where the population per bank office is above 50,000. It will be seen from Annexure II (p212) that the population coverage per bank office is below 50,000 in all the states with the exception of Arunachal Pradesh, Assam, Bihar, Orissa, Tripura, Manipur and Mizoram.

TABLE I

New Offices Opened (July 1969 to April 1976)

(Rs in lakhs)

	Unbanked Centers	Banked Centres	All Centres
State Bank of India	1,165	1,073	2,238
Associate banks of SBI	490	447	937
14 nationalised banks	3,173	3,544	6,717
Public sector banks	4,828	5,064	9,892
Private sector banks	1,022	1,691	2,713
Regional rural banks	50	22	72
All commercial banks	5,900	6,777	12,677

TABLE II

Dispersal of Bank Offices

(Rs in lakhs)

	No of offices June 1969	No of offices April 1976	% share in total June 1969	% share in total April 1976
Rural	1,832	7,499	22.4	36.0
Semi-urban	3,322	6,274	40.1	30.2
Urban	1,447	3,671	17.5	17.6
Metropolitan/port towns	1,661	3,373	20.0	16.2
Total	8,262	20,817*	100.0	100.0

Note: Classification of centres in June 1969 based on 1961 census and in April 1976 based on 1971 census. *Excludes 122 offices closed during the period July 1969 to April 1976.

Unbanked Areas

The perspective plans for branch expansion covering the three years from 1976 to 1978 submitted by banks to the Reserve Bank include a large number of centres in the underbanked states especially in the eastern and north eastern region, as also in districts where the population per bank office still exceeds 75,000. This is in accordance with the advice given to banks by the Reserve Bank which continues to lay emphasis on the need to minimise inter-state/district disparity in the provision of banking facilities.

A significant development during the year was the setting up of 20 regional rural banks covering 35 districts in the country. These banks have opened 72 bank offices. Nineteen more regional rural banks would be opened within a couple of months to cover another 33 districts and, within a few months thereafter, 11 more rural banks would be set up in the country.

The Indian banks opened 14 branches outside India during the ten months ended April 1976, bringing the total number of branches in foreign countries to 79.

Priority Sectors

Simultaneously with the expansion of branch net work especially in unbanked, rural areas, there has been a further significant diversification of bank lending to priority/neglected sectors – agriculture, small-scale industries, transport operators, professionals/self-employed persons, retail trade/small business, export and food procurement. Bank credit to these sectors has gone up from Rs 995 crores in June 1969 to Rs 5,327 crores in April 1976, its share in total bank credit rising from 27.6 per cent to 48.6 per cent. The Table III compares the sectoral deployment of credit as at the end of April 1976 with that in April 1975 and June 1969.

The record of commercial banks in mobilising the savings of the community has been quite encouraging. Total deposits, which had increased from Rs 4,646 crores in June 1969 to Rs 12,545 crores in June 1975, have risen further to Rs 15,056 crores in June 1976, representing an average annual growth rate of 32 per cent. The bank group-wise performance in this respect is highlighted in Table IV.

On per capita basis, deposits of commercial banks now amount to Rs 245 against Rs 86 in June 1969. As a proportion of national income at current prices, deposits work out to about 25 per cent, against 15 per cent.

TABLE III

Sectoral Deployment of Credit

(Rs in crores)

	June 1969	April 1975	April 1976
Public food procurement	233	564	1,573
Agriculture	188	785	1,042
Small-scale industries	286	1,043	1,188
Export	258	750	981
Other priority sectors	30	322	543
Priority sectors — total	995	3,464	5,327
	(27.6)	(39.4)	(48.6)
Residual sector*	2,605	5,323	5,640
	(72.4)	(60.6)	(51.4)
Aggregate advances	3,600	8,787	10,967

Note: Figures in brackets relate to percentage share in total. *Includes large and medium industries and wholesale trade in public and private sectors.

TABLE IV

Growth of Deposits

(Rs in crores)

	June 1969	June 1975	June 1976
State Bank of India and its associate banks	1,239	3,564	4,348
14 nationalised banks	2,633	6,990	8,359
Public sector banks	3,872	10,554	12,707
Private sector banks	774	1,991	2,349
All commercial banks — total	4,646	12,545	15,056

Annexure I

Group-wise Bank Offices in Different Categories of Centres

	Rural	Semi-Urban	Urban	Metro-politan/ port towns	Total all centres
State Bank of India					
June 1969	462	795	162	150	1,569
April 1976	1,578	1,299	543	433	3,853
Associate Banks of SBI					
June 1969	356	377	85	75	893
April 1976	781	630	234	180	1,825
14-Nationalised Banks					
June 1969	686	1,451	924	1,072	4,133
April 1976	3,785	2,922	2,098	2,023	10,828
All Public Sector Banks					
June 1969	1,504	2,623	1,171	1,297	6,595
April 1976	6,144	4,851	2,875	2,636	16,506
Private Sector Banks					
June 1969	328	699	276	364	1,667
April 1976	1,299	1,412	791	737	4,239
Regional Rural Bank					
April 1976	56	11	5	—	72
All Commercial Banks					
June 1969	1,832	3,322	1,447	1,661	8,262
April 1976	7,499	6,274	3,671	3,373	20,817

Note: Classification of centres in June 1969 based on 1961 census and in April 1976 based on 1971 census.

Annexure II

State-wise Distribution of Bank Offices and Population Per Offices

States with an average population per bank office	No of bank offices June 1969	No of bank offices April 1976	Population per bank offices June 1969	Population per bank offices April 1976
Below 25,000				
Chandigarh	20	57	7	5
Goa, Daman & Diu	85	152	8	6
Delhi	274	613	10	7
Lakshadweep	—	4	—	8
Punjab	346	1,076	42	13
Kerala	601	1,465	35	15
Pondicherry	12	31	31	15
Gujarat	752	1,686	34	16
Karnataka	756	1,881	38	16
Himachal Pradesh	42	201	80	17
Dadra & Nagar Haveli	—	4	—	19
Haryana	172	509	57	20
Jammu & Kashmir	35	229	114	20
Tamil Nadu	1,060	2,083	37	20
Maharashtra	1,118	2,354	44	21
Andaman & Nicobar Islands	1	5	82	23
Between 25,000 and 50,000				
Andhra Pradesh	567	1,523	75	29
Rajasthan	364	862	70	30
Meghalaya	7	29	141	35
West Bengal	504	1,278	87	35
Nagaland	2	14	205	37
Madhya Pradesh	343	1,025	116	41
Uttar Pradesh	747	2,150	119	41
Between 50,000 and 1,00,000				
Arunachal Pradesh	—	9	—	52
Assam	74	260	198	56
Orissa	100	368	212	60
Bihar	273	912	207	62
Tripura	5	23	276	68
Manipur	2	12	497	89
Above 1,00,000				
Mizoram	—	2	—	166
All-India	8,262	20,817	65	26

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Cover Picture:

An artist's conception of Viking I landing on Mars.

Man, Mars and the marvels of science

IS THERE life on Mars, the Red Planet? This question has baffled man for centuries. The answers thrown up by the most powerful telescopes were far from perfect. With increasing scientific knowledge, man started planetary exploration. When man landed on the moon and found it lifeless, attention was diverted to Mars and Venus. Russian spacecrafts have landed on Venus and provided useful information about this planet. Their invasion of Mars however has not been successful because of the rough landing of their spaceship. It is the American unmanned Viking I spacecraft which soft-landed on the surface of Mars on July 20, 1976, and which has added another chapter to the marvels of scientific discovery.

Viking I started its journey on August 20 last year. In 11 months it traversed a distance of 320,000,000 kilometres — something which boggles the mind. Originally it was expected to touch down on July 4, 1976, to mark the 200 years of the birth of the American Republic. But the scientists were not satisfied with the landscape as disclosed by the first pictures sent by the orbiting spacecraft. They were keen to select a soft place from where soil could be scooped and tested. They took 16 days to decide about the landing site.

Viking I will be followed by Viking II which is expected to land in September this year. Both the spacecrafts have been equipped with laboratories which will conduct biological experiments to determine the presence of life, present or past. For conducting these experiments, each laboratory has a collection of the most sophisticated scientific equipment which can be put together in a large suitcase.

The first photographs which Viking I has sent to the Pasadena (California) research station show the presence of rocks and sand dunes around the place of landing. It has also revealed the presence of nitrogen and argon in the atmosphere of the Red Planet in sufficient quantity so as to raise the chances of life being present. While no conclusive evidence of life has come to light, the scientists believe that the presence of water, nitrogen, carbon, phosphates etc was enough to confirm the belief about the presence of life on Mars.

But in all such scientific exercises, the chance of mechanical failure — though minimised through trials on earth — cannot be ruled out altogether. On the fourth day of the landing, the spacecraft's automatic digger which was designed to scoop up the Martian soil for chemical tests got stuck. But the scientists succeeded in rectifying the snag which in itself was a marvel of remote control. Even if Viking I gave a negative answer — that there is no life on Mars — it will have to be confirmed by Viking II. It is highly unlikely that both the spacecrafts should land in barren areas.

Man on the Moon may now be followed by Man on the Mars though it will take some time to study the working of human body when it travels in space for two years or more. These are costly experiments but much more important is the courage needed to undertake them. The lure of the unknown has proved too powerful for man to be discouraged by difficulties, whatever their dimensions.

The scientists in the USA have indeed a splendid record of planetary exploration. The speed with which new discoveries are being made through an interdisciplinary approach is something unique in the annals of scientific progress. This is not the age of a solitary Einstein. This is the age when top scientists in different branches — pure and applied — get together and pool their resources and talents to accomplish an assigned task. It is through team-work that the new marvels of science are being unveiled. Scientific thought backed by billions of dollars provided by the US government has made America the most powerful nation in the world.

While the US achievement in space research is unique, it is legitimate to ask if all the resources spent on this research could not have been profitably used for removing poverty and disease from the face of this globe. Cancer, the big killer, continues to claim more and more lives every year. Could a cure be found for this deadly disease if all the American resources in men and money currently being spent on space research were diverted for research in this field? What is worthwhile? — to save lives on earth or to discover if life exists on other planets? Perhaps the scientist in man finds the urge to conquer space and discover life on other planets more powerful than saving lives on this earth!

Banks after nationalisation

SEVEN YEARS ago, 14 major commercial banks were nationalised with the avowed objectives of checking the growth of monopolies, preventing the disproportionate share of the community's savings going to big business houses, reducing disparities in income and wealth between the affluent and the not-so-affluent sections of society and ensuring increased credit to priority sectors such as agriculture, small-scale industries and exports. It was also stated that having so many banks in the country was wasteful and that the state-run banks would be amalgamated into a small number of regional banks. The commercial banks with deposits of more than Rs 50 crores only were nationalised; the rest were considered to be too small to be included in the state sector.

At a conference held in the capital on July 20, 1976 to commemorate the seventh anniversary of bank nationalisation, Mr A.P. Sharma, minister of state for Industry and Civil Supplies, said that the results achieved in the working of the nationalised banks had fully justified the "revolutionary economic measure". He cited a few figures such as the number of new rural branches opened and the credit advanced to agriculture and industry in order to show that the nationalised banks had recorded phenomenal progress in keeping with the directives of the government. For instance, the number of rural branches increased from 1860 to 7451 (March 1976). The credit made available to the small-scale industries multiplied almost four times from Rs 251 crores to Rs 1028 crores (December 1975) and in the case of the agricultural sector, from Rs 188 crores to Rs 998 crores.

A day earlier Mr Pranab Kumar Mukherjee, minister of state for Revenue and Banking had said in a broadcast over All India Radio that the nationalised 14 banks had increased their deposits from about Rs 5,000 crores to Rs 15,000 crores. The total number of bank branches had also risen from 8321 to 21000. What was more, the nationalised banks had earned profits to the tune of about Rs 115 crores out of which they had paid more than Rs 27 crores to the government by way of dividends.

creditable performance

By any measure of reckoning, the expansion in the activities of the nationalised banks was indeed creditworthy, though the major casualty was the banking service which had tended to deteriorate. Not that the government was not aware of it. The government knew that it had not succeeded in bringing about a change in the attitude of the bank employees at various levels. It was in this context that Mr A.P. Sharma rightly suggested that new norms should be evolved to evaluate the performance of bank managers as the existing system favoured "conservatism, lack of initiative and restrictiveness". He wanted the emphasis to be put on "liberalism, initiative and a helpful approach towards productive purposes". It was indeed far from flattering that the government had not succeeded in seven years to bring about the requisite change in the outlook of bankers at various levels so that they could fit in with the changing social, political and economic climate of the country.

As stated earlier, the line was drawn, in 1969, at deposits of Rs 50 crores for the nationalisation of commercial banks. Now, some of the banks which had not been taken into the net at that time have accumulated deposits of more than Rs 100 crores. The very fact that these non-nationalised banks have shown rates of progress which are much higher than those of the nationalised banks is proof positive of the lack of efficient service in the state-sector banks which have lost many a customer. Anyway, a healthy competition between the two sectors should be welcome because it is through this process only that the customer has a chance of getting a better deal at the hands of the bankers.

advances to farmers

That more than Rs 1,000 crores have already been advanced to the farmers speaks volumes of the good work done by the nationalised banks in giving support to the agricultural sector. However, it is necessary to issue a warning at this juncture regarding the recovery of loans. Now that the farmers have reaped rich dividends through bumper harvests and the price-support as well as procurement policies of the government, an attempt should be made by the banks to speed up the recovery of loans from the farmers. The experience of agricultural cooperatives in many states has been discouraging in the past which in fact was the main cause for giving a set-back to the cooperative movement. The banks will have to be extremely vigilant in this regard as the success of the official policy to extend increasing assistance to the farmers will largely depend upon the capability of the bank managers to minimise losses in this sector.

Like the agricultural sector, the other two priority sectors—small-scale industries and exports—have also received increasing credit facilities from the nationalised banks. This is evident from the significant expansion which has taken place in both these sectors in recent years. Additionally, the number of small entrepreneurs, mostly self-employed, has also increased. It is some of the larger industrial units which have been groaning recently under the stringent credit policy. The lack of credit in many recession-hit engineering industries particularly has caused severe strains. It is now time to ask the question as to why the government let capital investments take place in such sectors as, in its view, were not relevant to the economy. Surely, the same capital could be diverted to such industries as were included in the priority list. It would have meant more fruitful exploitation of the available capital resources.

It has been a wise decision to appoint this week a commission (see Trade Winds, page 246), headed by Mr Manubhai Shah, former central minister for Industry and Foreign Trade, to examine the working of the state sector banks and to suggest their restructuring so as to improve their working operations. Besides promoting operational efficiency of banks, the commission will study ways and means to involve them in the process of rural development and balanced development of the various regions of the country. Also, it will examine the links between public sector banks and other credit and development agencies. Mr Shah, besides being an experienced former central minister having close knowledge of the working of the economic ministries and their allied offices, has a deep understanding of the various forces at work in the economy and, hence, has the capability to objectively scrutinise the working of banks, and can be expected to come up with really helpful recommendations.

Drift in jute

PROF. D.P. Chattopadhyaya, the union Commerce minister, said recently in Calcutta that the government had no plan to nationalise any jute mill though there might be some changes in the management of a few mills. It was, of course, not expected that the government would seriously contemplate the nationalisation of the jute industry or of individual mills in the present situation. Nevertheless, the minister's clarification is welcome. But what should cause concern to the industry and the country is the inordinate delay in announcing an integrated policy which would help the mills to strengthen their competitive capacity in the short period, reopen the ten closed mills and make the sick units viable.

Mr Siddhartha Shankar Ray, the chief minister of West Bengal, had declared on June 26 this year that the government would announce by July 1, a scheme for solving the crisis in the jute industry. The Bose-Mullick committee which has been set up to examine the problems of the jute industry has not yet finalised its report although it was expected to do so by the end of March this year. One reason for this delay appears to be the difficulty of finding a consensus among its 13 members who have been called upon to express their views on a wide range of subjects including research and development, modernisation of machinery, financial assistance, and other aspects relating to the growth of the industry. Even if the committee expedites its report, it seems doubtful if its recommendations can be implemented at an early date. Meanwhile, the government of West Bengal has introduced a new scheme for the supply of power to jute mills with effect from July 14, 1976.

staggered working

The scheme has divided the jute mills into two groups. The mills in one group will work from 10 p.m. to 6 a.m., 6 a.m. to 12 noon and twelve noon to 6 p.m. They will not be allowed to work between 6 p.m. to 10 p.m. In the other group, the mills will work from 10 p.m. to 6 a.m., 9 a.m. to 12 noon and 4 p.m. to 10 p.m. Mills in both the groups have been allowed to work six days a week. Prior to the introduction of this scheme, some mills were working for five days a week and others for six days. It is feared that this arrangement will not be of much help to the jute industry to improve its prospects in the immediate future.

There is the likelihood of the costs of production going up further due to the cut in production. The regulation of working hours is expected to reduce the output to about 75,000 tonnes a month from around 80,000 tonnes a month which was achieved under the production regulation order which has now been withdrawn. The scheme is expected to enable the industry to be able to reinstate about 40,000 workers whose employment had been affected due to the regulation in production. But unless effective measures are adopted to place the industry on a sound footing, workers will continue to face an uncertain future. Jute growers will also suffer. In fact, the Jute Corporation is reported to have expressed the view that the new energy control order is mis-timed because it would lead to the lifting of smaller quantities of the fibre by the mills.

increasing stocks

It is significant that despite a decline in production from 87,400 tonnes in May to 79,100 tonnes in June, the stocks with the members of the Indian Jute Mills Association rose by 18,400 tonnes to 135,000 tonnes. Stocks of sacking increased by 13,700 tonnes to 59,100 tonnes, hessian by 3,100 tonnes to 37,400 tonnes, carpet-backing by 600 tonnes to 26,300 tonnes, and other goods by 1,000 tonnes to 2,800 tonnes. The foreign demand for jute goods continues to be sluggish.

In 1975 the industry exportd only 450,000 tonnes compared to an average of 620,000 tonnes in the preceding three years and more than 900,000 tonnes about a decade ago. Export of hessian and carpet-backing declined to 226,000 tonnes and 100,000 tonnes from 267,000 tonnes and 144,000 tonnes respectively in 1974. Sacking exports fell sharply from 129,000 tonnes in 1974 to 81,000 tonnes. The exports in the current year are unlikely to pick up in a big way unless the industry is enabled to cut its costs and offer its goods at competitive prices. In this context, the reported decision of the government of India to make the cash compensatory support for carpet-backing available only to manufacturers has caused disappointment and resentment among merchant-shippers and non-mill exporters who fear that this change in policy is likely to affect exports of this item and also create uncertainty among importers abroad.

The internal demand for jute goods has been sharply increasing but the uneconomic prices offered by the Directorate General of Supplies and Disposals

(DGS&D) have been putting the industry to loss. The Indian Jute Mills Association has represented to the Bose-Mullick committee that its members have been incurring "heavy financial losses" on their supplies to the DGS&D and that these have "drained the industry's funds to the extent of Rs 21 crores". The IJMA said: "It is most unfortunate that the DGS&D saw it fit to stop buying, after lifting goods only for two months. The reason for this arbitrary action is not known to the industry and the issue of a number of letters and telex messages have failed to elicit any reply from the DGS&D. This action has greatly disappointed the industry and it has set at naught the sanctity of contract. The latest policy adopted by the DGS&D is to refrain from buying for some time and then to call for a tender for small quantity but, eventually, it makes purchases in a big way in order to obtain the goods at lower price from the industry which is a distress seller".

It is regrettable that the industry and the government have not been able to evolve a price formula which will be fair to both. It is stated that while, according to the industry, the manufacturing cost of 100 bags of standard BT will come to Rs 387 on the basis of raw jute price of Rs 70 per maund for Assam Bottom, the office of the Jute Commissioner has arrived at a figure of Rs 351.33. But, surely, it should be possible to fix the price at a level which will provide a reasonable return to the industry and, at the same time, be considered fair to the government.

"The greatest threat to the existence of the jute industry today is the lack of its viability", said Mr J.P. Goenka, chairman of the Jute Manufactures Development Council, at its inaugural meeting on April 18 this year. He added that "the losses suffered in manufacturing and marketing the products at the current levels of cost and sale prices are eating into the very vitals of the industry". Although over three months have passed since the council was set up, the industry's problems continue to remain as acute as before. New Delhi should lose no more time in evolving a sound strategy which will enable the industry to face the future with confidence.

Retreat from dear money: when?

THE BUOYANT conditions witnessed in the gilt-edged market in the past few months are reminiscent of the situation noticed in the mid '40s and in the mid '30s when an increase in the stature of the banking system and expectations of a retreat from dear mony led to a scramble for buying large parcels of long-dated securities. It may not be correct to expect a repetition of the happenings of the earlier periods referred to in a completely identical manner as it is unlikely that there will be a return to the old concepts of cheap money and borrowing by governments on a cheaper and cheaper basis. But there is bound to be rethinking on the utility or otherwise of the present policy of dear money as there has been no integrated approach for evolving a workable interest rate structure and the social and economic implications of dearer interest rates have not been fully assessed or understood.

The lending rates of banks have been adjusted as a matter of convenience and borrowers have been asked to bear heavy interest charges in order to enable them to operate a system of differential interest rates for according special treatment to borrowers in the weaker sections of the society, financing developmental expenditure involved in implementing branch expansion programmes and making also large provisions for bad debts arising out of sticky or irrecoverable advances. The losses sustained by banking system as a result of bad debts have not been precisely estimated; but there is reason to believe that these losses have been more than covered by inner reserves and profitability of working of banks at the present moment is quite high in spite of privileged borrowing by the central and state governments and public bodies privileged in relation to the prevailing Bank rate of nine per cent.

The ineffectiveness of Bank rate will be evident from the fact that lending rates have no relation to the Bank rate and the interest rates on government loan have also no logical relationship with the Bank rate. The disparities are due to an anxiety to have a large cushion to meet all contingencies and enabling also the central and state governments and public bodies to secure their requirements on an advantageous basis.

need for efficiency

It was therefore explained some time back by the union minister of state for Finance, Mr P.K. Mukherjee, that a reduction in interest rates charged by banks can be achieved if there is an increase in the efficiency of the operations of banks and saving in working expenses especially as the banking system had to invest up to 40 per cent of total deposits in securities at lower interest rates and for maintaining cash balances.

These arguments had great weight until recently as the rapid pace of branch expansion was proving to be costly and sufficient experience had not been gained in extending loans to new classes of borrowers. The recent developments, however, have resulted in a significant improvement in the capability and profitability of the banking system. With the branches started in earlier years reaching the profit-earning stage and there being a surge in deposits of rural branches, further branch expansion cannot impose any strain and the losses incurred in the initial years can be easily borne in normal working. Second, the loaning of the funds to new classes of borrowers is being done on a scientific basis, while thanks to the Emergency and larger amount of deposits per branch, the ratio of working expenses and total income has come down significantly. In 1976 the profits of banks may record a phenomenal increase as on present indications the growth in deposits may register a rise of even 30 per cent as compared to 1975 and banks will be obliged to invest quite large amounts in gilt-edged securities even after meeting fully the needs of all classes of borrowers.

There may even be need for making special efforts to extend loans to worthy borrowers if procurement credit does not rise in the coming year in the manner it has done in the past 12 months.

exceptional surge

The surge in deposits in the past few months may be regarded somewhat exceptional as being due to the opening of accounts in designated foreign currencies by non-resident Indians and the flow of remittances from Indians residing in foreign countries directly into the banking system on a scale larger than ever before for meeting the needs of their dependents in this country. The advantage arising out of accounts in designated foreign currencies may not continue to be available in the same manner. But the flow of remittances in foreign exchange resulting in addition to the purchasing power of Indian population and increase in foreign exchange reserves may have a vastly strengthening effect on the banking system and on the balance of payments position. There has also been a faster growth of deposits of banks within the country in the metropolitan centres and in the semi-urban and rural areas.

The increase in deposits in the scheduled commercial banks in the 12 months under reference has been helpful in financing procurement operations and expanding food credit by Rs 1,508 crores. Non-food credit rose by Rs 1,391 crores. It was therefore possible to increase investments in government securities and treasury bills alone by Rs 636 crores, cash balances by Rs 203 crores and money at call by Rs 117 crores. There was of course an increase in borrowings from the Reserve Bank, against refinance facilities provided by it, of as much as Rs 943 crores. The fact remains that the banking system provided out of owned resources, food credit of Rs 565 crores.

What will be the look of things by July next year? There cannot obviously be an increase in food credit of similar dimensions as it will not be necessary to maintain bigger buffer stocks. Nor will it be feasible to hold larger stocks because of the acute difficulties experienced in storing foodgrains. The prospects of bumper kharif crops again being harvested suggest that there cannot be any big reduction in aggregate buffer stock and there may even be need to effect sizable purchases in pursuance of support operations if movement restrictions are not relaxed or exports are not effected. But there is the physical impossibility of holding larger stocks and there will necessarily have to be major decisions in regard to the handling of marketable surpluses in foodgrains.

There will of course have to be financing of buffer stocks of oilseeds, cotton and raw jute. But these may not call for an outlay of more than Rs 300 crores under the best of circumstances. There may probably have to be a provision of Rs 500 crores for food procurement or reduction in borrowing with the Reserve Bank if it decides on a modification of the refinance facility. However, in actual practice the additional demand on these counts may not be more than Rs 500 crores and even if non-food credit rises by Rs 1400 crores, the banking system will have a surplus of more than Rs 900 crores as even the growth in deposits in the next 12 months will be in the region of Rs 2,800 crores. The whole argument is based on the assumption that the banking system will not have recourse to fresh borrowing from the Reserve Bank except for short periods for meeting bulges in demand for funds. With the improved capability of banks for lending and investment, the structure of interest rates should be logically streamlined and the Bank Rate also lowered in stages to seven per cent. Government borrowing may be at 5¾ per cent or 6 per cent for long-dated loans while the lending rates of banks on advances to industry and trade can be reduced by two to three per cent. In view also of the growing income of banks the levy of the government can be reduced suitably.

It is the expectation of cautious retreat from dear money because of the compulsion to invest large amounts in gilt-edged securities that the scheduled commercial banks have been showing preference for medium-dated and long-dated securities latterly. In this process the average yield can be raised besides improving scope for securing appreciation in the value of holding with the lowering of interest rates. The open market operations of the Reserve Bank also have given rise to the feeling that future borrowing by the central and state governments may be on a cheaper basis. Even the response to the central loans issued recently indicated a great preference for long-dated securities, as out of total subscriptions of Rs 523.79 crores, applications for 6½%—2000

Eastern Economist 30 Years Ago

AUGUST 2, 1946

It is learnt that the Reserve Bank of India is approaching the scheduled banks with the proposal that the payment of interest on current account deposits be abolished and the rates paid in savings and fixed deposits be reduced. No legislation is proposed, but the view of the scheduled banks will be ascertained and the uniform maximum rates fixed for each centre and will be enforced under the supervision of the clearing house. The purpose of the proposals is fairly clear. Under the pressure of cheap money, conditions of banking have reached a stage in which the cost of keeping the current accounts and performing other banking services has come to exceed the return on the investments of these funds. Therefore, current accounts can carry no interest, even if they are not made to bear the cost of service performed. In countries such as Britain, current accounts carry no interest. But in India most banks pay a rate of ½ per cent on them. Non-payment of interest is quite a feasible proposition. It is likely to cause no setback either to the savings of the community or the deposits of the banks.

loan accounted for Rs 394.54 crores, 6%—1994 loan for Rs 88.13 crores and $5\frac{1}{2}$%—1984 loan for only Rs 41.12 crores. The holders of $6\frac{1}{2}$%—2000 loan/and medium dated loan must now be feeling happy as the open market sales are being effected at a considerable premium. The next moves of the Reserve Bank are eagerly awaited in money market circles as major questions of policy are involved. It will be interesting to know whether the monetary authorities will make an effort to reshape the structure of interest rates.

Fishing in stagnant waters

THE ASSISTANCE of approximately two crores of rupees released by the United Nations Development Programme (UNDP) for the second phase of the fisheries development programme in the country is sure to act as a shot in the arm to this project. By the end of 1979, when the UNDP programme will have run its course, it will have contributed some eight crores of rupees for intensified exploration and introduction of scientific methods of handling, processing and marketing of our marine products.

Fishing is big business in the developed countries where it provides a substantial proportion of protein in the diet of the people. With population in our country rising fast, in spite of all the governmental efforts at family planning, promotion of fish culture is essential for providing supplemental food rich in protein to the nation. Apart from abundant inland water resources for fish breeding, the country has a long coastline which could enable marine fishing on a large scale and open up unlimited prospects for exports. According to the Marine Products Export Development Authority, export of sea-food had fetched the country Rs 15 crores in the month of April this year. Last year we had earned Rs 120 crores from the export of sea-food, mainly of shrimp. This year we have planned for an export target of Rs 150 crores for marine products.

Marine fishing has been the occupation of the people of coastal India from earliest times but the operation has been confined to the vicinity of the shores and continues in large measure to be on traditional lines offering pittance for the hard and hazardous life of fishermen out on the sea. Mechanisation has to some extent been achieved with the assistance mainly of Norway which since 1952 has helped in the modernisation of our fishery; total assistance has been to the tune of Rs 20 crores. The yield has risen to over one million tonnes a year, nearly double that obtained in the 1950's, rising at an annual rate of five per cent. This is indicative of the scope that marine fishery holds for the country.

continental shelf

It has been estimated that India's continental shelf (about 200 metres depth) can fetch an annual production of some two and a half million tonnes. In 1971 we had obtained a catch of barely 1.16 million tonnes. The extensive resources beyond the continental shelf hold additional potential of equal dimensions. The National Commission on Agriculture believes that the production of marine fish can be increased to 3.5 million tonnes over the years up to 2000 AD.

The use of modern technology in the last 20 years, such as the application of telemetering, sonars and electronic equipment for fish detection and better trawling and handling methods have revolutionised the world fishing industry. It is necessary that in our country also the industry is enabled to avail itself of these advanced methods to attain its full potential. There are at present three organisations engaged in resource survey of marine fish. These are (i) Deep Sea Fishing Organisation, (ii) Integrated Fisheries Project and (iii) the United Nations Development Programme. The government of India has earmarked Rs 160 crores for the development of fishery during the current Plan period. The provision of eight crores of rupees by the UNDP will enable the introduction of improved methods on a larger scale and further exploitation of our marine products.

Added attention however needs to be given to increased earning from oceanic tuna. We should make an early entry into commercial fishing for highseas tuna and secure effective participation in the management of tuna resources. Prawn, lobsters and crabs are delicacies highly favoured in the affluent countries and fetch considerable foreign exchange. Even though prawn and lobster amounts to just 15 per cent of our marine fish catch they earn for us 60 per cent of the foreign exchange. Scope for prawn culture is unlimited but the industry lacks suitable trawlers which need to be imported freely till such time as indigenous craft are available.

If marine fishery is important from export angle, inland fishery is no less essential for employment as well as augmenting the nation's food basket, both quantitatively and qualitatively. The country abounds in inland water resources for fishery such as rivers, lakes, ponds or reservoirs. It may not be well-known that pisciculture has been adjudged more profitable than agriculture. Inland fishery has the advantage that demand for fresh water fish in the interior is far greater than that for sea fish.

extensive sources

Reservoirs in our country had so far been constructed for power generation or irrigation purposes. However these man-made lakes constitute extensive sources of inland fishery. Some three million hectares of water-spread area are newly available in the country. Under scientific hatching of fish these reservoirs could yield up to 120,000 tonnes of fish. This is a source which needs to be exploited expeditiously.

Man-made reservoirs in some cases can affect fishery by reducing the flow of water downstream. This is illustrated by the construction of a dam on river Roopnarain by the Damodar Valley Corporation which seriously affected fishery in that river. They can also pose a hinderance to the Hilsa fish which travel upstream and down for hatching. Similar problems have been tackled by many countries by regulated discharges which

were provided in the original designs of these reservoirs. They have also provided for fish passes or guiding devices at appropriate places to minimise the adverse effects to the upward or downward march of the Hilsa. The government should heed the advice of the National Commission on Agriculture and make similar arrangements in the original designs of new river valley schemes so that the course of migratory fish is not closed.

Traditional fish catching techniques continue to be used by inland fishermen to this day. The Central Institute of Fisheries Technology has obtained good results by operating nets of improved variety. It is unfortunate that these developments have not percolated so far to the fishermen.

Considerable progress has been made abroad in producing seed fish by controlled breeding, spawning and nursing and rearing of young fish. Hatcheries have been considerably modernised with the application of temperature control and other devices. In this country also fish culture has made some advance during the past two decades as a result of researches conducted by the Central Inland Fisheries Research Institute. This has spread carp culture to various parts of the country. Success has been achieved in breeding major carp under captive conditions and rearing of spawn fry has been considerably improved. Cultural experiments have been made by utilising different inputs such as manures, fertilisers and artificial feed which have given production in farm ponds up to 3000 kg per hectare.

The capacity of seedfish farms developed by various states is hardly four per cent of the requirements. Possibilities of establishing such farms exist at medium or major irrigation reservoirs. The use of fertilisers or organic chemicals for fish culture however is limited by the other uses to which this water is put. For example it can affect the purity of water for drinking purposes.

Many state governments have not shown as much interest in the cultivation of fish culture as it deserves. There are reports that funds allotted to fishery have been diverted to other purposes. It is not realised that pisciculture is non-consumptive of water, which is required only as a living medium by fish, and does not interfere with any other uses to which water may be put.

Systematic development involves survey of the waters available for fishery, elimination of predatory fish, collection of local varieties and import of new varieties, rearing in fish farms and hatcheries and distribution to lakes, rivers or reservoirs.

Marketing of the catch is no less essential. Unless fishing becomes remunerative and fisherman gets his due, there can be no real growth in the industry. Fishermen are an exploited lot, more so because of the perishable nature of their commodity. Cooperative federations for marketing of fish at reasonable prices and provision of wherewithal such as feed, fertilisers and fishing tackle are necessary to rescue fishermen from the clutches of middlemen who pocket most of their earnings.

The prospects of fishery as a source of remunerative employment to the economically backward fishermen are vast. A concerted effort at modernisation of the industry is essential to bring out its full potential as a source of nutritious food and as a sizable foreign exchange earner.

CAPITAL'S CORRIDORS

R. C. Ummat

Power outlook • IAAI's breakthrough

EVEN THOUGH no electricity generation set has been retired due to obsolescence during the current Plan period so far, notwithstanding the fact that while drawing up the tentative 1978-79 capacity target three years ago, account had been taken of nearly 600 MW old capacity going out of commission, the programme of raising the generation capacity to about 33,000 MW — not to speak of the levels of 41,500 MW and 36,000 MW, which used to be mentioned in 1972 and 1973, respectively — by the end of the above year is unlikely to be achieved. In fact, it is feared that the installed capacity by then may go up to not more than 30,000 MW.

significant reason

The inordinate delays in adding to the nuclear generation capacity, which have been caused to no small extent by the developments following the Pokhran explosion of a nuclear device over two years ago, indeed are a significant reason for the unlikelihood of the total generation capacity being raised by 1978-79 to approximately 33,000 MW. But the progress in the other two fields — coal-based thermal power and hydel generation — too has been below expectations — of course, due to mounting costs, paucity of funds and certain other unanticipated difficulties encountered in putting up new capacity, particularly in the hydel sector. The addition to capacity in the first year of the current Plan period has been of the order of 1,720 MW and in the second year to the extent of 1,800 MW, raising the total capacity to about 22,000 MW. Nearly 2,006 MW capacity is expected to be added this year. The addition in the next two years is envisaged to be 6,500 MW, as the completion of some hydel projects will accelerate the pace of growth.

It will, however, be uncharitable to deride the slow growth of capacity. The tempo of development, surely, has picked up significantly during the last two years. This should be evident from the fact that the addition to capacity in the terminal year of the fourth Plan period was not even one-third of the addition in 1974-75.

Despite the addition to capacity being not according to expectations, the power supply position in the country at present, however, is quite comfortable. During the rest of the current financial year also, it is likely to remain so, some shortages being felt only in Maharashtra, Karnataka and the north-eastern region. This is due to the fact that operational efficiency in the existing units has improved considerably and concerted efforts are being made to bring down the high transmission losses, including theft of power. In such states as Punjab, UP and Rajasthan, where the transmission losses were abnormally high two years ago — between 25 and 33 per cent — they have been brought down to between 17.5 and 22 per cent.

forced outages

The percentage of forced outages of power plants too has shown a significant decline — from 13.3 in 1974-75 to 12.8 in 1975-76. The time taken for planned maintenance has been reduced from 72 days in the first half of the last financial year to 65 days in the second half. The overall increase in the availability of power last year was of the order of 13 per cent, in spite of the thermal capacity not being utilised to the extent it was possible to do so as the hydel generation had picked up markedly. A further increase of slightly over 10 per cent in power generation is expected this year.

If the deliberations of the last week's meetings of the state ministers of power and the chairmen of the state electricity boards are any indication, another important change can be expected in the future planning of power projects, which should augur well for the long-term power development programmes. The change is that the importance of regional growth is now being appreciated in a much greater measure than had been the case hitherto when state-wise approach was preferred. The administrative, financial and commercial problems involved in regional planning are envisaged to be worked out by the states among themselves, with assistance from the union ministry of Energy.

integrated operation

Owing to the increased appreciation of regional approach to planning, the work on integrated operation of systems too has been speeded up in the recent past. It has been decided that a study group should be set up to go into the question of tariffs and commercial arrangements necessary for maximising integrated operations.

Another heartening outcome of the last week's deliberations has been that the consumer interests are now proposed to be catered for in a much better way through improving the quality of power supply. It was agreed that schemes for improving the distribution system should be expeditiously prepared by the states and included in their plans.

With a view to ensuring that the envisaged addition to capacity this year — 2,006 MW — actually materialises, it has been decided that the progress of construction should be concertedly monitored to obviate slippages due to avoidable reasons.

Some of the other important decisions taken by the last week's conference of the state ministers of power were:

(i) There is need for professionalising the management of state electricity boards and increasing the levels of specialisation through introducing appropriate institutional arrangements. The personnel management wings of the state electricity boards should be strengthened for imparting training to power engineering cadres.

(ii) The need to reorganise the power engineering services, so as to enable meritorius engineers to assume higher responsibilities at younger ages, was reiterated. It was decided that such engineers should be given wider experience and exposure to modern management methods.

preventive maintenance

(iii) The decisions taken by the chairmen of state electricity boards for reducing duration of planned and forced outages, introducing preventive maintenance techniques for reducing the incidence of forced and partial outages and for implementing the Kulkarni Committee report were endorsed.

(iv) The necessity of larger internal resource generation by state electricity boards, particularly by reducing the TRD losses, cost of generation and overheads was accepted. The procedure for obtaining loans from the LIC, it was felt, should be simplified. Interest during construction of power projects should be capitalised. Boards should be enabled to have equity capital. Modern methods of management should be introduced in the working of the boards so as to increase the levels of efficiency and reduce costs.

(v) Emphasis was laid on the need for the early integration of power systems, so as to increase the efficiency of use of generating capacity. For this purpose, the decisions taken by the chairmen state electricity boards, it was stressed, should be implemented vigorously.

(vi) Perspective plans for rural electrification should be prepared.

(vii) It was agreed that there was urgent need for taking up new projects for the sixth Plan. The need to have an optimum hydro-thermal mix in power planning was recognised and the importance of long-term planning for power development and a judicious and timely identification of projects for detailed investigations and preparation of reports, was stressed. In hydro-electric power planning, the need for adopting procedures to ensure preparation of project reports with adequate investigations and realistic parameters of cost and time-schedules was reiterated. In view of the capital-intensiveness of projects and recognising that hydro-electric sources and coal sources are not available in all parts of the country, a regional approach to power planning was endorsed. It was decided that proposals for taking up power projects in partnership would be explored, and issues of sharing of cost and power and arrangements for funding would be examined.

(viii) In view of the limitations which the state electricity boards face in raising adequate funds from non-budgetary sources, the need was felt for a comprehensive review of the problem for simplifying and augmenting the availability of funds from different sources.

* *

Like the Bharat Heavy Electricals, which, following the award of a prestigious contract for boilers by New Zealand recently, has booked another giant order worth Rs 102 crores from Libya for putting up a power station there, the International Airports Authority of India (IAAI) has achieved a breakthrough in undertaking turnkey projects abroad. This public sector enterprise too has bagged from Libya Rs 36 crores contract for constructing an airport at Ghat. The contract has been secured against stiff competition from some of the advanced countries of Europe. The main works at the Ghat airport would comprise the construction of airfield pavement areas. The National Building Construction Corporation, another public sector undertaking, is to be associated with the execution of the contract.

Disclosing the above at a press conference here recently, the chairman of IAAI, Air Marshal H. C. Dewan, also revealed that his organisation had been registered with the World Bank and the Asian Development Bank as airport consultants. It had developed its own techniques for airfield pavement design using a multi-layered system in which each layer was designed economically using local materials as far as possible. Enquiries, Mr Dewan further stated, had been received from many countries for consultancy and construction of airports. In several cases, negotiations were in advanced stages.

Another important breakthrough achieved by IAAI in the recent past has been in the production of indigenous equipment for airport lighting systems. Until recently, there was a complete dependence on imports of such equipment.

Exports : brighter days ahead

Prof. D. P. Chattopadhyaya

This is the text of the address of Prof. D. P. Chattopadhyaya, union minister of Commerce, at the seminar on export and production perspective : 1980-81, organised by the Federation of Indian Chambers of Commerce and Industry in the capital on July 20-21, 1976. Prof. Chattopadhyaya, after reviewing recent developments in India's export effort, has come to the conclusion that the outlook for the future is bright. He feels that increased responsibility rests on leaders of industry and trade in furthering the national interests of promoting production and exports.

THE RECENT economic history has distinctly revealed that foreign exchange is not only an important but also a critical element in the process of economic growth, especially if economic development is undertaken on a long term and sustained basis. The foreign resources not only provide a developing country access to imported capital goods, raw material and technology, not available within the national boundaries, but also help in bridging the 'savings gap' which often stands in the way of rapid economic growth of most of the developing countries. Among the means of acquiring access to foreign resources, the most important is export of goods and services in addition to assistance from international institutions and friendly countries. Since, however, the latter sources of external finance are not very stable, the developing countries have to rely on exports of goods and services in order to earn the maximum amount of foreign exchange for development purposes.

proportion of GNP

Although in the case of developing conntries, generally exports form a small proportion of the gross national product, but given the necessary directions and appropriate efforts, exports can enhance the process of development and growth of an economy. This, however, presumes a system of world trade where there are not many obstacles against the exports of developing countries. In our country, although presently exports form around six per cent of the total gross national product, but with necessary drive and initiative, it is possible to expand the share of exports, especially in industries and sectors which are faced with inadequate domestic demand. Also, it should be possible to expand exports of invisibles, particularly consultancy services and the like in view of the fact that we have now a much more diversified industrial base and the country has acquired the expertise for setting up and commissioning of a number of turn-key industrial and non-industrial projects in a number of foreign countries.

In the initial stage of economic development in the country, a number of industrial projects were set up primarily to meet the domestic demand and as a means of import substitution. Among these, mention may be made of items like

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railway wagons, coaches, locomotives, transformers, switch-gears, transmission line towers, etc. With the expansion of industrial production in the country, it has not only been possible to meet the domestic demand in respect of these but also develop surplus for exports. For example, as a result of a major programme for rehabilitation of the railway system in the country, a new situation has now emerged, when India is able to export locomotives, coaches, wagons, track equipments, etc, on a competitive basis and of international quality standards. Similarly, the rural electrification programme undertaken primarily for the purpose of taking electricity to the villages, has enabled us to establish units to meet our requirements of generators, transformers, switchgears, transmission line towers, etc. Apart from meeting the domestic requirements, we have now come up in the international market for exporting these goods. I would not like to multiply the examples, but probably the same can be said of a number of other products like iron and steel, chemicals, plastics, paper and others. Thus, it is evident, that, what we had originally started as import substitution items, have turned out to be some of our major non-traditional products of exports.

export surplus

In a country with a growing population, export surplus can only be obtained without causing undue strains on the economy, in case the production of the items keeps pace with their demand, internal as well as external. This will indicate the close and reciprocal relationship between the external demand and the need for a continuous expansion in the production base of the export items. In order to achieve this, the various production targets always keep in view not only the domestic demand for the items but also perspective external demand from export sector and production plans of export-oriented units are given priority and special facilities.

In the agricultural sector, there are a number of products which have substantial growth potential. Among these, mention may be made of sugar, quality foodgrains like basmati rice, cattle feed, besides the plantation items like tea, coffee, pepper, etc. In the annual plans special care is being taken to undertake programmes and schemes which increase the output of these items through provision of all essential inputs. I need not recapitulate the special efforts which have been made to promote the export of sugar from the country and success we have attained in this sphere.

The recent trend of global trade indicates a number of products where international demand is growing at a rapid rate. These include textile garments, engineering goods and iron and steel products, etc. Significantly, these are also the growth items which have been identified by us and efforts are being made to provide the necessary inputs so that their exports can be expanded at a rapid rate. Thus in the textiles group special emphasis is being laid on export of garments and made-ups, both of fine, superfine and mixed fabrics which earn a larger amount per unit as compared to the export of cloth only. So far as the exports of leather and leather manufactures are concerned, not only has an export quota for hides and skins been fixed, but in order to assist exports, the import of leather machinery has been put on the Open General Licence from this year. A number of steps have already been taken for promoting the export of engineering items from the country. With the opening of the Suez Canal, the export of iron ore is being diversified by promoting its export to west European markets. A beginning has also been made in the field of export of aluminium. Continuous efforts are being made for larger export of items like cement, coal, etc.

turnkey projects

Besides the export of commodities, special emphasis is being placed on export of turnkey projects and setting up of joint ventures abroad with Indian know-how and technology. With the substantial amount of technical man-power available within the country and experience of setting up a variety of projects in different industrial and non-industrial fields, it should be possible for us to undertake a number of turn-key jobs in foreign markets. We have won tenders for setting up a number of turnkey jobs and as the times goes by, this should expand rapidly. The establishment of joint ventures in foreign countries not only provides a market for Indian machinery and raw materials abroad but also throws up opportunities for other services like consultancy, commissioning, planning, erection, etc.

Your president in his address has referred to a number of important points. It cannot be denied that a substantial part of our recent expansion in exports was because of the global inflation. In view of the fact that the prices of primary products have now declined, increase in exports in future would have to come about through a greater expansion in absolute volume.

I am not a crystal gazer and therefore would not like to venture a comment on the future trend of world inflation. However, I would suggest that exports should be expanded to the optimum extent possible, so as to utilise the full potential of the economy. It is only through realisation of this potential that it will be possible for the economy to achieve a level of exports, which would not only cover the import requirements but also the interest element in debt servicing and thus accelerate the pace of self-sustained and self-reliant economic growth.

Reference has also been made to the disabilities which reduced the competitiveness of our exports in the world markets. I would not like to reiterate the various concessions we have given to the export-oriented units, but would like to add that for wholly export-oriented units, we have already established free trade zones at Kandla and Santa Cruz. From this year, imports of raw materials and other items for the units located there have now been placed on the Open General Licence and thus import licensing formalities have been done away with.

Fast developments and changes are taking place in the world economic scene. Efforts are being made to establish a New International Economic Order where the developing countries have a major say in the matter of exploitation, marketing, and distribution of their resources, so that they are able to earn the necessary foreign exchange for carrying forward the process of economic development and growth of their economies. We have been continuously lending support to this at various regional and international forums. We have taken active interest in the establishment of Pepper Community, Association of Iron Ore Exporting Countries and other commodity arrangements so that it may be possible for the primary producing countries to earn increasing proportion of their foreign exchange by way of export of processed and semi-processed goods and manufactures based on raw materials produced within the national boundries. As time goes by, I am confident this process will gather momentum notwithstanding the slow pace with which it may move in the beginning, and even occasional setbacks.

Before concluding, I would like to mention that the outlook for the future should not be one of pessimism — but one of brighter days, studded with new achievements on the frontiers of production, exports and development. You have rightly noted that increased reponsibilities rest on the leaders of industry and trade in furthering the national interests of promoting production and export, and I would hope that you would perform the role assigned to you, especially when different sectors of the economy have registered impressive performances, as a result of the speedy implementation of the new economic programme.

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Manager

Rural banks and agricultural development : I

S. N. Bhattacharya

The author has, in the first part of this article, reviewed the place of agriculture in our five-year Plans followed by a discussion on the realities of the green revolution. In the background of this analysis, he has examined the role that we may expect the rural banks to play in improving the farm sector. The second part of this article which discusses the problems which the banks have faced or are likely to face in assisting the agricultural sector along with some concluding observations will appear next week.

AGRICULTURE WILL remain India's major problem for many years to come. Economic development through industrialisation is inseparably linked with success in agriculture. Highly industrialised nations have all a very strong agricultural base; conversely, nations with indifferent performance in agriculture are underdeveloped and poor, despite in many instances being rich in mineral resources.

Indian agriculture is now undergoing unprecedented changes that are both quantitative and qualitative. Looking back over the developments during the past five or six years one cannot but be struck by what has been achieved in a sector which had remained tradition-bound and largely stagnant for centuries and has always been regarded as not susceptible to any quick transformation. The application of science and technology to agriculture with its ingredients of high-yielding seeds, chemical fertilisers, pesticides and water management has opened up new vistas of crop yields from farms, irrespective of their size and achievement of levels of income to farmers that were not even thought of a decade earlier.

the beginning

Admittedly the process is only now beginning and is not yet all pervasive. There are areas where the new technology is yet to make its full impact. There are crops in which significant break-through has yet to be achieved and there are farmers who, for one reason or the other, have yet to reap the benefits of the new strategy[1].

The purposes of the present study[2] may be summarised in the following way: First, an attempt has been made to study very briefly the place of agriculture under our five-year Plans; second, an analysis of the realities of "Green Revolution" has been made; third, an effort has been made to examine the role that one may expect from rural banks in improving the farm sector; fourth, a further attempt has been made to study various problems these banks have been facing (or may face) in delivering the goods; and fifth, out of foregoing analysis, some concluding observations have been made which are subject to change, should more extensive data become available.

secondary sources

At the very outset, one would like to point out that the present study is based on secondary sources for its data, information etc. which have duly been acknowledged.

The priority[3] which agriculture has been enjoying in national planning has not been altogether consistent. At the time of the formulation of the first five-year Plan, the deficiencies in food and major cash crops such as jute and cotton were so marked that agriculture received the foremost priority, as a matter of course. The very success achieved in the first Plan by way of increases in agricultural production, particularly in foodgrains, created a certain confidence which was to a large extent responsible for agriculture receiving comparatively less importance in the second five-year Plan, though the actual outlay on agriculture and community development together in in the second Plan was substantially larger than in the first.

In the second Plan period up to 1958-59, agricultural production rose at the annual rate of about four per cent as against 2.8 per cent in the first. Apart from the fact that, as in the case of foodgrains, the annual increases were sharply erratic, the accelerated growth in population, running at two per cent per annum, changes in food habits, increase in the purchasing power of the people and the need to earn foreign exchange by enlarging the exportable surplus, called for a reassessment of the priority which food and agricultural development should have received in the third Plan.

buffer stocks

The setback in food production in 1957-58 and the somewhat unusual behaviour of food prices in the succeeding year when the crop was the biggest for any year clearly indicated the need for an even larger rate of increase in production and for substantial buffer stocks on which the government could draw when market arrivals tended to be sluggish.

Needless to say, the experiences of the second Plan, some of them agreeable, others less so, played a great part in the shaping of policy and methods for agriculture in the third five-year Plan period. In the third Plan, foodgrains production again claimed top priority. The target of foodgrains production in the third Plan period was determined by the requirements of a population which was estimated to increase at the rate of about two per cent annually, a well-marked growth of urbanisation and the requirements of increased per capita intake, resulting from increase in incomes. These factors governed the demand. For supply to match this demand, the potential and prospective resources in land, water, fertilizers, seeds, credit and improvements in organization and management had to be utilised to the optimum. On these considerations, a target of production capacity of 100 to 105 million tonnes was fixed. Even if an output of 100 million tonnes was secured in 1965-66, it could be deemed sufficient. The extra five million tons provided for was by way of a cushion against unforeseen difficulties.

In the fourth Plan, foodgrains production again claimed top priority. The mid-term appraisal of intensive agricultural performance showed that the agricultural production programme itself had to be revitalised. If our dependence on imported foodgrains had to cease, it was necessary to make far greater use of modern methods of production and to bridge the gap between demand and production by the application of the latest advances in the science of agriculture. A new strategy or approach was needed if we were to achieve results over a short span of time. As a result of the trials conducted in several research centres in India on exotic and hybrid varieties of seeds, a breakthrough was achieved. These varieties were highly responsive to a heavy dosage of chemical fertilisers.

culmination of trends

The necessity for concentrated and integrated efforts on specific production programmes in areas where assured availability of water could facilitate the large quantities of fertilisers needed for high-yielding varieties of seeds, had not arisen suddenly. It was the culmination of certain trends hastened by the breakthrough in the matter of seeds and the change in the attitude of the Indian cultivator towards chemical fertilisers.

The long-term objective was to organise the use of high-yielding seeds together with a high application of fertilisers over extensive areas where irrigation was assured. It was operated mostly in the IADP and IAAP areas as these offered the maximum potential for production and were better provided with staff and other facilities. It may be stated that though priority in the allocation of essential inputs was given to these areas, there was no question of ignoring the non-intensive areas in the provision of inputs and administrative and technical personnel. It may be added that in the areas selected for concentrated effort, there was to be no discrimination[4] between cultivators on the basis of resources or the size of holding.

In the fifth Plan, the emphasis[5] on agriculture is still being continued. It would be the country's endeavour to realise in full the various crop targets; meanwhile, the reorientation which the agricultural economy has started receiving ever since the advent of the first Plan is leading to a gradual transformation in rural life in which more and more enthusiasm on the part of the cultivator is being rewarded with more and more material benefits.

Green Revolution

How green is the green revolution[6]? For the proponents, be they participating farmers or interested observers, the revolution is green enough such as it is. It is so particularly when stripped of the social ideology namely, that even in its formative stages — and this is where the green revolution is — it can be a cure for poverty, inequity, and so much else that bedevils rural India. For the former enthusiasts who have undergone a conversion of faith it is easy to denigrate it on such grounds as 'Prosperity for whom?' or 'Not so Green Revolution', or 'Indian Agrarian Revolution — Is it a Fact yet?'. These questions impute to the green revolution a good deal of fact and fancy, the sum total of which tends to blur, if not distort, what it has accomplished, what its potential might be, and what clearly it cannot do and why. Regardless whether the gaps between the proponents and opponents can be bridged or narrowed, something may be said briefly about the recent past and future prospects.

Leaving aside the unjustifiable claims in areas other than productivity, the term 'green revolution' suffers from the word 'revolution'. It is so even if it is endowed with strictly production functions. The word revolution stands for a sharp break from the situation that existed before the revolution. It implies also that transformation can be attained quickly. Thus defined, 'revolution' is a millstone around its neck and many of the ills ascribed to the green revolution flow from it. But if it is viewed more modestly as evolution in the process of finding a way out of the customary behaviour of traditional agriculture, it has served the country well, all the constraints notwithstanding. It must be asserted that the failure to live up to its production potential is centred on the well-known proposition that 'Nobody has been able to invent a cow which will give milk without being fed.'

This is at the heart of the unrealised potential where the technology is firmly implanted, and why so many crops have not been touched by it. The fault does not lie with the inherent advantages of the technology; their sophistication to raise yields has been proved. Rather, the fault lies with the failure to help them along in a variety of both man-made and natural inadequacies encompassing skills, irrigation facilities, allocation of resources, and the whole gamut of physical inputs, research organisation and communication. The point to stress, however, is that the existence of a breakthrough away from traditional agriculture is in the making and it matters not whether one marks it 'revolutionary' or just plain 'evolutionary'.

selective technology

Evidence on the credit side of the ledger is just as obvious as the evidence on the debit side. The new technology is selective as to the types of farmers and areas of concentration, but larger numbers of relatively small farmers are part of it as well. To be sure, this does not overlook the fact that for lack of resources multitudes are only onlookers of the new development. The importance of the dramatic increase in inputs cannot be exaggerated. On this score one is almost tempted to use the questionable term 'revolutionary'. Wheat yields have doubled, intensity of cultivation has increased measurably, farm income has increased sharply, farm labour input has increased and is so far a net gainer, and the prosperity thus engendered extends beyond the farmsteads, into various entities of the rural and urban communities.

Global statistics do not help the credibility of the green revolution, for it has been demonstrated that the trend rates of growth in production as well as in productivity before and after the green revolution do not differ materially. They tend to overlook, however, a number of developments such as wheat, rabi rice grown in favourable conditions, and one might also add that in some of the traditional rice-growing centres promising strains are afoot. This points not only to what high-yielding varieties produce, or can produce, but also to the salutary changing response of the farmers; Kusum Nair,[7] a close observer of the agricultural scene, once wrote that 'of all the variables in agriculture the farmer is the most crucial and the least predictable.' The latter part of the statement probably still holds, but it would not do to deny that, being rational in economic terms, the participants and even the mere farmer-observers of the changing picture have 'voted' for the change when it is within their reach. Far from sweeping rural India, the new technology in its present state has nevertheless initiated a salutary change in traditional production patterns along with a psychological urge for better farming and living. These, as nothing else, nourish the promise of future agricultural progress.

pessimistic view

One of India's outstanding economists looks at the same scene and arrives at a more pessimistic assessment. K.N. Raj[8] is firmly of the opinion that barring a change in the institutional framework of agrarian economics technological changes cannot bring about the hoped-for transformation of traditional agriculture. As it is, the green revolution creates only an "enclave" or a "dual" agricultural economy. Mexico with its "green revolution" has done just that. Since institutional reforms are meeting with resistance, the stress on purely technological changes is inevitable, and hence Raj's[9] conclusion:

"The result is that.... the availability of modern technology leads very often to dualism in the agricultural sector rather than to transformation of traditional agriculture." One's personal observation in Mexico supports the conclusion as far as Mexico is concerned, but it does not fit the Indian case; the technologies are locationally and financially differently conceived in the sense that only the biggest holders of Mexico are involved. They represent the new "latifundistas" which the Mexican agrarian revolution[10] is supposed to have abolished. In contrast, the existing "dualism" in India has taken place in areas also affecting holders with as little as five to ten acres. This is not an argument for condoning, for example, the stagnation of agrarian reforms, but even within this constraint the technology can be pushed into new areas so long as more inequitable allocation of resources in hand and other impediments are eliminated. But if this is to be achieved, and if India is to become self-sufficient in food, the issues raised here must be dealt with the seriousness they deserve.

real cure

The cure of these realities, imbalances in regional agricultural development and rural poverty, lies not in minimising or restricting the spread of the new package of practices. The contrary should be pursued, for even if what India has now is an "enclave" although one extending to about 15 or more per cent of the cultivated acreage, it has demonstrated not only what it cannot do but also what it can do. The latter is vital. The government of India is anything but blind to the need of expanding the technology into areas not touched by it. The events of the past year make it critically obvious that because of the monsoon ficklessness a more stable agricultural economy is a "must". It knows, too, that for the first time it has a handy tool to do so. The question is whether this potential can be transferred to new, agriculturally-poor and more difficult areas of the country.

In trying to answer this question it is assumed that there is nothing inherent in Indian agriculture which is immune to human effort and scientific application, particularly if it is combined with appropriate policies at political, economic and organisational levels. The effectiveness of this trinity is of utmost importance because the transfer of a useful package of practices into the dry-land regions, for example, many of them crowded with illiterate subsistence farmers, presents infinitely more difficult technical, financial and organisational problems than in a prosperous Punjab. In retrospect, the Punjab package was a "sure thing", but no such assertion can be made about the greater part of the so far untouched acreage.

The principles upon which the new agricultural strategy was based are universal and in theory they are applicable to dry land as well. In practice, however, the ecological and human setting is much more demanding in technical knowledge, financial resources and their allocation. The familiar inputs such as water, suitable varieties of seeds, fertilisers and so on will be part of the mix, but the mix is still an unknown quantity until suitable techniques are developed to use a minimum of water for a maximum output. Only time, effort and much else can provide the answer. It is up to the government of India, therefore, to see to it that the talent and resources at its disposal are actively engaged in the service of the next stage of the green revolution with whatever adjustment regionalism might call for.

crucial point

One thing is fairly clear: those who cast aspersions on the technology should keep in mind the crucial point that neither farm prices and incentives nor structural changes can solve the problem of productivity and more equitable distribution of income where the suitable technological solution does not exist. The efficacy of favourable prices, incentives and useful changes in the rural structure is fully recognised, but the fact remains that traditional inputs do not produce high yields, and high yields are the controlling factor in any meaningful strategy of agricultural development regardless of the region. As part of that strategy, the government of India acted properly in concentrating on selected areas which offered greatest returns. The time has come, however, to shift attention to the technically, economically and socially less favourably placed agricultural sections of the country. Admittedly, this will be by far the most difficult task and a test of the coming changes in the Indian agricultural economy.

In the debate on the merits and demerits of the fifth Plan the prime minister stressed[11] this when she stated among other things that the issue "is not a question of money alone", that "our main failure in development has been because we have not been able to mobilise the rural community." Mobilising the rural community means a gamut of decisions and actions including agrarian reform implementation, long-overdue farm taxation of the well-to-do farmers, administrative tuning up, timely execution of rural development priorities, and correcting institutional bottlenecks such as the manner in which credit and inputs are distributed.

Availability of credit, a key factor in the spread of the green revolution and in determining the returns from its adoption, is a good example of what is at issue. It is well-known that the annual rise in the total co-operative credit loans advanced neither makes for its equitable distribution nor for better management of the rural co-operative structure. This is a familiar story and not of the making of the new technology. One cannot but agree with Vyas[12] that "The security oriented credit policy, procedural tangles, and the.....power equation in the countryside compromise the effectiveness of these institutions." Equally fitting for a resurgent rural economy is an industrial green revolution with a sharply stepped up growth rate and overall beneficial distributive consequences flowing from it.

only option

Surely some of these problems will have to be taken in leash simply because this is the only option open to the country to raise the food output to feed its rising population. The alternative of expanding acreage to increase production no longer exists. Here India is up against the wall, and it cannot be stressed strongly and often enough that augmented productivity can come only as a result of better practices, which is to say that the ways and means to bring that about will have to be both strengthened and newly created. The obstacles to realising this cannot be underestimated. The prospect, however, is not without a silver lining in this respect. Some parts of the country have gone a long way in that direction. That this has taken place in those regions where conditions are more favourable does not minimise the all-important lesson that Indian farmers are capable of absorbing productive technology given the opportunity to do so. Therein lies the promise that, however difficult the task ahead, the story of the green revolution need not end with Punjab, Haryana, Western UP and scattered islands elsewhere.

The prime minister's 20-point economic programme[13] lays great emphasis on providing the benefit of economic development to the large number of the weaker sections of our people, namely, small and marginal farmers, agricultural labourers, small traders and village farmers. The rural people have to be saved from the cultches of money-lenders.

regional banks

In the first five years[14] after nationalisation, the 14 banks opened 4,889 new offices, of these 2,509 or 51 per cent were in rural areas. In 1970 there were, 1,448 rural branches which went up to 3,195 in 1974, an increase of 120 per cent in four years. Of their 9,017 branches in 1974, 35 per cent was in rural areas, 27 per cent in semi-urban and 19 per cent in metropolitan cities and port towns.

The government of India proposes[15] to set up 50 regional rural banks in various parts of the country by April 1, 1977 "subject to manpower constraints".

Each regional rural bank[16] may have an authorised capital of Rs one crore and a paid up capital of Rs 25 lakhs. The share capital would be raised by the government of India, the state government concerned and the sponsoring bank in the ratio of 50:15:35. There will be no participation of other industries and individuals in the equity of the regional rural banks.

The net national product of India,[17] which was Rs 208,01 crores in 1965-66, now stands (at current prices) at Rs 496,28 crores, while the per capita income during the same period rose from Rs 426 to Rs 850. It is necessary that the benefits of this development should go to the weaker sections also. These regional rural banks are expected to be qualitatively different from other commercial banks. Science and technology have brought new hope in villages where only 10 per cent are affluent and the remaining 90 per cent poor both in respect of raising deposits and granting loans for production as well as for necessary consumption needs.

Agricultural development along with the development of subsidiary occupations in animal husbandry and fisheries and development of forestry, including farm forestry, requires substantial capital and short-term finances. The National Commission[18] on Agriculture has done a detailed exercise on the possible requirements of funds for agriculture and the subsidiary occupations, provided various plan formulations are implemented. At present, a substantial portion of the short-term credit in the rural areas is obtained from the money-lenders and the large agriculturists. The impact of both co-operative lending and commercial lending has not exceeded 40 per cent of the estimated requirements.[19] With the debt redemption legislation for the small and marginal farmers sources of funds from the moneylenders will dry up. The institutional sector will have to fill in this gap 100 per cent and that too in a very short period.

filling the gap

Financial requirements for capital build-up and capital investment is possible only for the very rich in the rural areas. Most of the others, if required to take part in modern agriculture and modern subsidiary occupations, will have to look to credit institutions for funds. Without such funds, the necessary improvement of infrastructure and obtaining capital resources for subsidiary occupations will be impossible. Taking all these into consideration, the commission has worked out that credit requirements by 1985 for full coverage will be of the order as shown in the table on page 233.

Thus total credit requirements in the rural sector by 1985 are expected to be Rs 16,549 crores which indicates clearly the task ahead. Surely all this will not be accomplished by the institutional sector by 1985. Taking a realistic view of the possible growth of credit, the commission has also estimated the extent to which credit will be built up. For livestock and fisheries development no graduation is considered necessary since the programme is considered to be the minimum. By 1985, credit of the order

of Rs 9,400 crores will be required. It is also suggested that 45 per cent of the 1985 level for short-term loans and 40 per cent of the medium and long-term loans should be met by the end of the fifth five-year Plan itself. By 1979, the commercial banks are expected to cover nearly two fifths of the requirements. It has to be kept in mind that the national programme of farmer service societies supported by the rural banks will be substantially financed by the commercial banks. The whole system is an operation of spread of rural banking aiming at mopping up rural resources for rural lending.[20] The progarmme may not be beyond the capacity of the commercial banks but it does require a great deal of organisation.

vital programme

The banks are already familiar with the short and long-term lending for agricultural development and subsidiary occupations. Recently, the banks have also ventured into the field of lending for forest corporations. It is not, therefore, necessary to expatiate on the details of this programme to any great extent. The real difficulty that the banks will face, will be in supporting the village industries programmes, the food processing programmes and the tertiary sector growth in the rural areas. These programmes are vitally necessary for both tapping rural prosperity and providing employment of a remunerative kind to the large rural labour population including the educated unemployed. This sector is by and large self-employed, but not very gainfully, at present.

Rural banks (commercial banks as well as regional rural banks) have to play a dynamic role in meeting the growing demand of credit along with other organisations. Various studies[21] indicate that one of the reasons for which the benefits of green revolution cannot be spread is the lack of adequate credit which fails to reach the majority of the farm people who are not in a position to follow the new strategy of agriculture through high-yielding varieties of seeds, modern inputs, implements etc, due to their financial inability in most of the cases. Therefore, in our country, perhaps more than anywhere else in the world today, rural banks have to play a critical developmental role which has been put in sharp focus by the "20 Point Economic Programme" launched by our Prime Minister. Rural banks should be looked at from the point of view of community-based organisation and they should take steps on an organised basis to blend their economic goals with social gains.

India's development depends to a great extent upon how agriculture behaves in the years to come. Most of our rural people live in villages and most of them also live on agriculture. Therefore, in any growth-oriented approach, it appears to be desirable that adequate return from agriculture is made possible and the same is to be sustained on a permanent footing. When this surplus is generated in the farm sector, the next step is to *utilise a significant portion of it for industrial development* particularly for small, village and cottage industries to provide subsidiary occupations to the rural people so as to link agriculture with industries in the context of overall growth strategy for the concerned area.

But the generation of surplus may be made by any of the following strategies: Either, a very few well-to-do farm families may be taken up and be provided with necessary infrastructure to increase both capacity as well as income creating aspects and the surplus when generated out of their increased effort may be reinvested and a significant portion of it may be linked with industrial development in the area. Or the majority of the rural people are made to involve in growth-oriented activities of the area through increased farm income by providing a majority with the required infrastructure facilities as far as possible; and through their increased and meaningful endeavour, the possibility of increased economic surplus is largely opened which *will have to be reinvested* in such a way that a significant portion of it is linked with industrial development in a systematic manner.

Considering our approach[22] towards agricultural development, reliance should be placed on the second alternative mentioned above as a strategy to agricultural development, though experience[23] points out that in most of the cases it is a very few of the well-to-do in the farm community who are becoming better and

Credit Requirements by 1985 for Full Coverage

(Rs in crores)

	Marginal & small farmers	Medium & large farmers	Total
Short-term loans	2,193	5,691	7,884
Medium & long term loans	2,497	5,786	8,265
	4,690	11,459	16,149
Provision for machinery & implements			400
Total			16,549

Source: *Southern Economist*, March 1, 1976, p. 35

the poor poorer. So, this trend is to be reversed in the context of our growth strategy[24] for rural as well as for the country at large.

But in order to reverse the process in the desirable direction whereby the fruits of agricultural development may be extended to the majority, one needs amongst others (viz, adequate modern seeds, implements, etc,) enough credit—both for consumption and production purposes and this must go to the doors of the majority. Herein comes the key and significant role of the rural banks which are expected to rise to the occasion to bridge the credit gap between what is desirable and what is possible at the earliest through suitable agricultural finance strategy.

major factors

Such a strategy may note[25] the following factors along with others: First, effort is to be made to avoid scattered lending which confronts the banks with the insurmountable problem of supervision and follow-up of credit. Second, efforts may be made to evolve the strategy of intensifying agricultural lending at selected centres of rural areas. Only such areas as have a sizeable potential for investment lending are selected. Third, direct lending to the farmers may appear a costly process on follow-up. Canalisation of credit through approved intermediaries may be considered necessary if the overall cost of farm lending is to be kept within limits. Fourth, one should note that finance is not the be-all and end-all of agriculture. Timely supply of other inputs[26] like fertilisers and pesticides, provision of extension services by the local authorities and satisfactory arrangements for marketing the produce have to be arranged in a systematic manner.

This may suggest the need for multi-purpose co-operative societies or farmers' service societies which may undertake to canalise bank credit[27] to the farmer and also provide other critical inputs and services. Fifth, in view of the urgency of implementing the "20-point programme", it may be considered necessary that simultaneously with the increase in the scope of activities of the rural banks for farm financing other activities under these banks may be extended to cover the financing of rural artisans, cottage industries, retail trade and other economic activities in the villages.

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20. According to Mr. Mukherjee, the union minister of Revenue and Banking, even after the regional rural banks open branches, it would be difficult to meet the full credit requirements of the rural population—*Indian Express*, April 17, 1976, p. 1.

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27. According to P. Mukherjee, union minister for Revenue and Banking, the bulk of this rural credit was consumption credit. A committee under Mr. B. Sivaraman had been set up to go into this question of meeting the consumption needs of the rural population—*Indian Express*, April 17, 1976, p. 1.

Enough is enough

Ever increasing consumption in the developed world is damaging the environment; pre-empting resources and opportunities for development in the Third Word; and leading to a deterioration in the quality of life in the rich world itself. This article is based on a special report from Scandinavia on two movements campaigning against overdevelopment.

WINDOW ON THE WORLD

CHANGES IN the life-styles of the developed nations are now necessary—for the sake of the Third World, for the sake of the environment, and for the sake of the quality of life in the rich nations themselves. This is the hard core of an idea which, although a 'still small voice' at the moment, is growing noticeably louder in the industrialised nations.

Speaking on the twin issues of environment and development late last year, Dr Mostafa Tolba, Executive Director of the United Nations Environment Programme, said in Kyoto, Japan, that "new life-styles will be necessary in all countries, especially in the developed countries. In the rich third of the world" he added "real importance needs to be attached to creating a better quality of life and less to the maximisation of per capita consumption".

At almost the same time, an international symposium was being held in The Hague, Netherlands, to discuss the New Economic Order. Speaker after speaker stood up to make the point that the New Economic Order meant a transfer of opportunities for economic growth to the developing countries and that this represented not only a new hope for the Third World but also a new opportunity for the rich world itself to find a new direction. "We can and must redefine the persuit of happiness" said Mr C.I. Itty of the World Council of Churches. "Such a change in outlook" he added "is needed for a better quality of life in the developed western societies, for their own sake as well as for the betterment of the poor societies".

Meanwhile, a report was also being issued in Stockholm, Sweden, which goes into more detail on how and why this change in life-styles should be fought for. Published by the Swedish Secretariat for Future Studies, Cabinet Office, the report begins by saying that in 25 years time, Sweden will be consuming three times as much paper, six times as many chemicals, four times as much steel, twice as much food and four times as many industrial products. Sweden's population is not expected to grow significantly during those next 25 years. So what, asks the report, will these increases achieve ?

The conventional answer—a happier life for the people of Sweden—is beginning to wear a little thin. For many years the train of human welfare was pulled by the engine of economic growth, but now there are signs that the link may be weakening, says the report.

In short, the advantages to the Swedish people of having three, four or five times as much in the year 2000 are least open to question. The disadvantages, especially in terms of resource depletion and environmental pollution are not.

There may also be other equally serious dangers in consuming many times more. As a UNEP symposium in Cocoyoc, Mexico, has put it "Man has a limited capacity to consume material goods... it does not help us to produce and consume more and more if the result is an ever increasing need for tranquilisers and mental hospitals". These fears are not without substance—almost half of all the hospital beds in Europe and North America are now occupied by people suffering from some kind of mental illness.

new directions

The Swedish report, published in the 1975 Dag Hammarskjold Report under the title of "Another Sweden", argues that "The time seems right to choose a different direction for the future development of industrialised societies". The main recommendation of the study is that Sweden's consumption should now be stabilised and the nation's priorities switched to the task of improving the quality of the environment and to working out better relationships with the developing world.

Consumption of most kinds of meat, for example, would be stabilised slightly below present levels—approximately 15 kg per person per year—and more equally distributed within Sweden itself. Oil consumption would also be levelled off at the 1970 figure of 3.5 tons per head per year.

Consumer goods from cars to washing machines would be made more durable. Manufacturers would be compelled by law to make products to last for a legally stated length of time and to be responsible for the whole life-span of those products including scrapping and recycling. Many basic commoditiess uch as working clothes, shoes and bicycles would be sold on a

non-profit basis. And almost all cars would be publicly owned and rented-out for use on medium and long-range journeys.

The authors of the report, Goran Backstrand and Lars Ingelstam, admit that "The global significance of these measures lies in the more than symbolic value of a rich country taking some note of its own declarations. But the major effect of implementing these proposals would be in their influence on the political climate of Sweden itself". They believe that the result would be a massive shift in attitudes "directed at the workings of the International Economic System and against the wasteful elements of modern life".

"It is all too easy" concludes the report, "to write-off, in cynicism or resignation, all hope for any willed change that is not forced by short-term necessity. But planned future decisions are better than crisis management and the events of 1974 and 1975 on the international scene in general and in the United Nations in particular, form a proper framework for a reappraisal. The time has come to go from words to deeds."

greatest problem

Across the border in Norway, a similar set of ideals is already moving from words to deeds. It all began when Erik Dammann wrote a book "The Future in Our Hands" arguing that increased consumption in Norway was bad for the environment, bad for the developing countries whose resources are being used to increase the wealth of the west, and bad for the people of Norway who were themselves suffering from too much emphasis on material goods. "Our greatest problems" he wrote "are due to the pollution of the environment caused by this abundance, exaggerated production of increasingly useless goods; intense industrialisation and the associated centralisation and dehumanisation of living and working surroundings; and the stress caused by growth and competition."

"Really we all know" he continued "that we exchange something important for something false when we give up leisure, family togetherness and the enjoyment of nature, to earn extra for a bigger car and finer furniture—which we could easily manage without."

The book provoked such a response in Norway that more than 2,000 people from all over the country attended a public meeting in Oslo to discuss the thousands of letters which the author had received. The result was a new movement which has begun to attract members at a rate of over 1,000 a month. People in towns and villages are forming themselves into "future in our hands" groups of 20 or 30 people to discuss the issues of environment and development and to begin changing their own life-styles.

new life

So far, the movement is concentrating on a host of immediate practical aspects of the 'new life'—resisting unnecessary consumption, avoiding waste, growing food, seeking to rediscover enjoyment of the natural world, trying to establish less competitive relationships, distributing lists of second-hand shops and cheap recipes, sharing transport.

The political thrust of the movement is aimed at demonstrating that there is mass support for a fundamental change of priorities in Norway. "Only when the majority wish for a new mode of development and are willing to take the consequences of it" says Dammann will the necessary expertise be mobilised to solve the problem of redeploying resources.

We are not going in for a poorer life, but for a richer one he argues. "What is needed is the understanding that by living as we do we sacrifice the true genuine joys that life can offer. But we must never forget that the new and humane course we are pursuing will remain a beautiful dream right until each one of us is prepared to change the course of his or her own life."

Similar movements are emerging in many industrialised nations. In the United Kingdom, several groups are campagning under the slogan 'Live more simply, so that others may simply live'.

In Denmark, Professor Adler-Karlsson has called for a ceiling on incomes and declared that "Nobody should increase his affluence until everybody has essentials." Only time will tell whether all these are voices crying in the wilderness or prophets of a new society. But that issue will be decided by whether these ideas remain on the academic shelf or whether they take root in the hearts and minds of large numbers of people.

There is at least a chance that this is now beginning to happen in the industrialised world. As the distinguished American philosopher Robert Heilbronner has written "There is a startled awareness that the quality of life is worsening. Of all the changes in our background, awareness perhaps, none is so important as this.

For some time, observers have wondered why their contemporaries, who are three or five or ten times richer than their grand-parents, did not seem to be three or five or ten times happier or more content or more richly developed as human beings. This scepticism, formerly the preserve of a few philosophically minded critics, has now begun to enter the consciousness of large numbers of men and women."

Courtesy: *United Nations Environment Programme.*

Don't mind the rejection of my application by Indian varsities, daddy. I'll learn abroad.

New OPEC approach

Mariano Gurfinkel

The author (who is a member of the IMF Research Department) has shown that in sharp contrast to 1974 and 1975 when crude oil exports for two consecutive years fell, there is likely to be a rise of 12 per cent in the oil exports of the OPEC, thanks to the revival of the American and European markets and the decision of OPEC at Bali not to raise oil prices.

THE MINISTERIAL Conference of the Organization of Petroleum Exporting Countries (OPEC) held in Bali, Indonesia, May 27-28, considered two important issues: (1) the price level of the Saudi Arabian light (34° API) crude oil, used as marker for OPEC crude oils, and (2) the problem of price differentials among the numerous grades of crude oils of OPEC members. These questions were considered against the background of an improving world economy, and a consequent increase in consumption of oil now estimated for 1976 at four per cent above last year's level. This article reviews the Bali results and recent trends in world oil demand, production, and trade.

Algerian formula

In Bali, the ministers decided to leave the marker price level unchanged, for the time being, at $11.51 per barrel, and they informally agreed to adopt—provisionally and flexibly—the so-called Algerian formula for differentials. Although news reports from Bali stressed the temporary freeze of the marker crude, the more interesting and complex of the two issues considered was the new ad hoc net back system for calculating price differentials.

For over two years, the system of price differentials based on factors of quality and location has been particularly impaired, and the members of OPEC have been working to devise a more realistic and responsive approach. A final solution has not been reached but the adaptation of the Algerian formula now provisionally in use represents the application of a net back system based upon the product yields of various grades of crude oil.

Since the Bali meeting, there have been a number of price adjustments announced, estimated to affect nearly 10 million barrels per day or over a third of OPEC crude oil output. Among them have been a slight reduction in the price of the heavier crudes in the Persian Gulf and increases up to 35 cents per barrel in the price of the lighter African crudes. Venezuela, which produces a wide range of oils, increased some of its crude and products effective July 1, and lowered the price of fuel oils with low sulphur content. The net effect of all of the OPEC price adjustments is likely to be a slight increase in the average price.

The approach of the Algerian formula is to grade the various OPEC crudes in relation to the marker crude by determining a differential for quality and freight factors. With respect to quality, the differential reflects the yields and values of products in comparison with the marker Arabian light weighted for sev... major markets for OPEC oil. With respect to location, the differential compares transport costs of each crude with those for the Saudi marker in each applicable market or markets, using a formula reflecting both historical and spot tanker rates (two thirds average freight rate assessment and one third spot rates). Under the Algerian formula, crude prices may fluctuate within a price band of plus or minus five per cent of the differential from marker crude.

To illustrate how a net back form... functions, Table I campares Libyan lig... crude with Saudi light on the Rotterdam market. The figures are approximate, and show the differential yields of both crudes and their early June prices in US dollars per barrel. Deducting refinery and tanker costs, the net back to f.o.b. loading terminals is reached. The operation indicates that the Libyan crude has an advantage of slightly over $1.00 per barrel with respect to Saudi light in this market. The differential is averaged with those for other markets, and then used to adjust the f.o.b. price. If the resulting average differential is assumed to be 80 cents the price of the Libyan crude oil may be raised by from $12.10 to somewhere between $12.27 to $12.35. The eight cents is the discretionary band of plus or minus five per cent.

It should be stressed that the recent adjustments are flexibly based on the new provisional formula, which serves to indicate the intended floor, and is, of course, more flexible upwards. Thus, Iraq's National Oil Co is reportedly offering Basrah crude at a higher price than the band would warrant, and some high quality Indonesian crude oils are now priced above the range.

TABLE I
End Market Values for OPEC Net Back Pricing
(Comparing Saudi and Libyan light crude oils in the Rotterdam market)

	Cargo Price (US dollars/barrel, f.o.b. Rotterdam)	Yields (per cent)		Proceeds (US dollars/barrel)	
		Saudi	Libyan	Saudi	Libyan
Total				12.45	13.00
Naphtha	14.95	6	10	.90	1.49
Premium gasoline	19.03	11	11	2.09	2.09
Regular gasoline	17.51	5	5	.88	.88
Kerosene	14.87	6	3	.89	.44
Gas oil	14.28	23	29	3.28	4.14
Fuel oil (low sulphur)	10.46	—	36	—	3.76
Fuel oil (high sulphur)	9.81	43	—	4.22	—
Other	—	—	—	.19	.20

Data: *Petroleum Intelligence Weekly*, June 21, 1976; *World Petroleum, Chemical, Coal*, June 2, 1976; and Fund staff estimates

World oil consumption declined in 1975 for the second consecutive year. The magnitude of the 1975 drop was substantially larger than in 1974. The rate of decrease amounted to approximately 1.5 per cent world-wide. It resulted from a drop of almost four per cent in the industrial countries, and an increase for the centrally planned economies and the developing countries estimated at about six per cent and three per cent, respectively.

decline in consumption

Among the factors that contributed to the worldwide decrease in oil consumption were the following: (1) the low level of economic activity in industrial countries; (2) a slight shift in the pattern of energy use in favour of coal end natural gas; (3) conservation policies in some major consuming countries; and (4) mild weather.

The rates of change in the demand for oil among the major consuming areas and countries are shown in Table II. Among the European countries the rate of change ranged from no decline in Spain to a drop of over 12 per cent in the United Kingdom. The US oil consumption, accounting for about 30 per cent of the world's total, declined by some 2.5 per cent.

Since the beginning of this year, demand for oil has strengthened considerably. During the first quarter of 1976, inland consumption has increased by 3.5 per cent in the United States and 4.7 per cent in Japan. In western Europe, the four leading consumers—France, the Federal Republic of Germany, Italy and the United Kingdom—used over five per cent more in the first two months of this year than they did in January-February 1975. The latest data for France indicate that during the first five months, its demand for oil products was up by nearly 10 per cent, compared with January-May 1975. With world economic recovery continuing, consumption for the year as a whole is expected to show a four per cent increese.

The recent upturn in demand has resulted in an increase of some $2\frac{1}{4}$ million b/d in world crude oil production during the first quarter of 1976, or some 4.4 per cent compared with the same period last year. In 1975, oil output declined by some 2.7 million b/d, to an average of 53.2 million b/d a decrease of nearly five per cent. Production of natural gas liquids remained unchanged at an average level of 2.8 million b/d.

In the Western Hemisphere, output fell by 7.5 per cent, due to the decline of over 20 per cent in Venezuelan production and the less marked declines in the US, Canadian and Ecuadoran outputs. Only Mexico achieved a sharp increase of some 24 per cent.

Production dropped in the Middle East for the first time, the drop was seven per cent, and in the Asia-Pacific region it was about one per cent. On the other hand, output in western Europe and in the centrally planned economies continued to grow. The European increase of some 45 per cent was chiefly in Norway, and the 8.8 per cent increase for the centrally planned economies included Mainland China's big jump of 24 per cent in its still modest output.

TABLE II
Comparison of OPEC Net Back Values and Prices
(For Saudi and Libyan light crudes in the Rotterdam market)
(US dollars/barrel

	Saudi Light	Libyan Light
Total proceeds	12.45	13.00
Less refinery cost	.55	.55
Less tanker cost	.80	.30
Net back	11.10	12.15
Oil acquisition cost for operating companies	11.26	11.92
Third party sales price	11.51	12.10

Data : *Petroleum Intelligence Weekly*, June 21, 1976; *World Petroleum, Chemical, Coal*, June 2, 1976 and Fund staff estimates.

The oil output of members of OPEC amounts to over 50 per cent of the world's total, or OPEC output of 27 million b/d in 1975, a decline of nearly 12 per cent. Output of some members declined very sharply—Kuwait, Nigeria, Qatar, Saudi Arabia and Venezuela, for example, it was less pronounced for others, but it remained roughly unchanged for three, and it registered a steep increase in Iraq. As OPEC has no agreement for pro-rating production increases or cutbacks among its members, the output of individual countries depends mainly on the relative competitiveness of crude oils and on certain non-economic considerations. Both factors, particularly relative competitiveness, may undergo significant changes within a one-year period and the system of fixed differentials in use before the net back formula was insufficiently responsive. Lowered output is evident from the fact that unused OPEC productive capacity during 1975 averaged an estimated 11 million b/d or some 28 per cent of total capacity.

TABLE III
Estimated Petroleum Products Demand
(thousand barrels/day)

	1974	1975	% change 1974/75
Industrial areas •	35,900	34,500	—3.9
United States	15,700	15,300	—2.5
Canada	1,620	1,620	—
Western Europe	13,100	12,400	—5.3
Australasia	690	680	—1.4
Japan	4,830	4,540	—6.0
Developing area	6,520	6,730	+3.2
Latin America	3,090	3,120	+1.0
Africa/Middle East	1,610	1,670	+3.7
Indian Sub-continent	600	620	+3.3
Other Asia	1,220	1,320	+8.2
Bunkers	2,430	2,210	—9.1
Centrally planned economies	9,640	10.280	+6.6
Total	54,540	53.780	—1.4

Data : *Petroleum Economist*, July 1976, and Fund staff estima.es

During the first four months of 1976,

OPEC's output rose by over seven per cent, compared with the same period a year ago. For the entire year, the rate of increase is expected to average about 12 per cent. (Table IV).

In 1975, the volume of oil in world trade fell for the second consecutive year. Import requirements of crude oil and products in western Europe, North America, and Japan were about 10 per cent below the 1974 average. Imports of oil declined by less than one per cent in the United States, by four per cent in Japan, and by 16 per cent in western Europe. Among the European countries, imports declined least in Belgium, Luxembourg, and the Netherlands, and most in the United Kingdom.

During the first few months of 1976, oil trade has been increasing due principally to the sharp rise in imports by the United States and some European countries. As a result, the volume of OPEC exports has been growing and is expected to average some 12 per cent above the 1975 level.

TABLE IV

Crude Oil Production of OPEC Members

(thousand barrels/day)

	1975	Per cent change 1974/1975	Jan-Apr 1976	Per cent change Jan-Apr 1975/76
Total	26,842	—11.6	27,903	7.4
Saudi Arabia	7,077	—16.5	8,018	18.3
Iran	5,350	—11.1	5,303	—5.2
Venezuela	2,346	—26.2	2,091	—19.2
Iraq	2,216	17.1	1,851	—10.8
Kuwait	2,084	—18.2	1,865	—13.8
Nigeria	1,787	—20.7	2,032	14.2
Libyan A.R.	1,510	—0.7	1,821	83.6
Abu Dhabi	1,400	—0.7	1,549	48.5
Indonesia	1,313	—4.5	1,486	17.5
Algeria	960	—4.9	1,000	10.3
Qatar	-39	—15.4	486	—8.8
Gabon	200	—1.0	211	4.4
Ecuador	160	—9.6	192	42.2

Data: *Middle East Economic Survey*, April 19, 1976 and *Petroleum Intelligence Weekly*, May 31, 1976.

Paths to international cooperation

Emile Van Lennep

This is the text of the speech delivered by Mr Emile Van Lennep, Secretary-General of the Organisation for Economic Cooperation and Development (OECD), to the University of Mainz on July 1, 1976. He has discussed the interrelated subjects of world economic interdependence, the management and security of the world economy and relations with developing countries.

IT IS self-evident that our concept of international economic relations must adapt to changing realities. Progress can under certain circumstances be achieved through crisis as witnessed over the past few years by the difficult challenges of inflation, recession, the oil crisis, as well as the developing countries' concept of an all-encompassing "New International Economic Order."

I would like to suggest that we should recognise that the world has changed and that there is a need for us, the industrialised countries, to evolve common views on a new, realistic imaginative concept of managing interdependence and the world economic system. This calls for closer consultation, concertation and cooperation among OECD countries in formulating and implementing their economic policies, but also for new dimensions in our relations with developing countries. The industrialised countries should also have a clear and coherent concept of the fundamental objectives they are seeking to achieve, clearly define the ways by which the necessary improvement in the world economic system can be brought about, and enunciate the responsibilities which they themselves will have to bear in the process.

When one wants to look ahead, it is sometimes instructive to look back a few years to see just how far things have changed. Only a few years ago we were still looking at the free world economy as split between the rich in the north and the poor in the south. We knew that what happened in the northern economies affected the fortunes of the south. But the connections between economic developments and decisions in the south and the fortunes of the north seemed tenuous.

The situation today is profoundly different, and a major test of statesmanship lies in the ability of governments—both in the north and in the south — to recognise this fact and shape their policies accordingly. The economic interdependence of the world has grown by leaps and bounds. We, in the industrialised world, are now very conscious of this when we see the effects that, say, decisions about the price of oil have had on our economies. The developing countries are even more conscious of it than before. They see the effects on their economies of the inflation that has developed in the industrialised countries in recent years (their awareness of this is one of the more interesting points to emerge from the dialogue between richer and poorer countries to date). And all of them have felt, acutely, the effects of recent sharp fluctuations in the business cycle of the industrialised world.

economic interdependence

I firmly believe that this increased economic interdependence is a beneficial force in the market-oriented world economy. It means greater opportunities for economic growth by richer and by poorer alike. This is because close connections through the mechanism of international trade and investment movements increase the scope for mutually profitable entrepreneurial initiative between the citizens of all open market economies. And it is thus that we can achieve an increasingly effective development, in the interests of all, of the world's latent mental and material assets.

But I also believe, and equally firmly, that this international interdependence has got to be managed carefully if it is to yield its best results, and not simply to transmit adverse developments throughout the world.

We know, to our cost, that no economic force transmits itself so fast across frontiers as excess demand and inflation — unless it be the forces of recession that follow as the night does the day.

And we also know, from recent experience, that our interdependent economies have become increasingly vulnerable on the supply side. Interruptions of supply, shortages and unfavourable climatic conditions, wherever they occur, can have a major impact on the economies of each nation.

This growing interdependence of the world economic system, and the increased national vulnerability that goes with it, cannot be turned back. But as I say, they have to be managed if they are not to become a source of dislocation or disruption to our respective national economies. New policies and mechanisms for ensuring necessary structural changes and orderly evolution of the world economy have become necessary, and every nation has come to recognise this.

Now someone has got to take the lead in managing these affairs, so that the benefits are maximised and shared fairly between developed and developing countries, and so that the possibility of negative effects is erased. The management, of course, will require closer consultation and cooperation between governments of both richer and poorer countries in the formulation and implementation of economic policies. But I want to underline the point that there are important fields in which it is incumbent upon the market-oriented industrialised economies to take the lead.

code of behaviour

It was therefore with considerable satisfaction that I witnessed, the governments of the industrialised world manifesting, in OECD, their recognition of their opportunities and their duties in this regard. What the twentyfour member governments did, when their Foreign and Economics ministers met in OECD, was to agree upon certain very basic principles and policies which will guide their behaviour in such a way as to promote the maximum degree of non-inflationary growth, employment and social progress not only among their own countries, but in the world at large. By renewing the OECD Trade Pledge they confirmed that element in their code of behaviour which outlaws, despite the present difficult circumstances, protectionist "beggar-my-neighbour" trade policies.

By adopting a Declaration on Guidelines for Multinational Enterprises, National Treatment, International Investment Incentives and Disincentives and agreeing to inter-governmental consultations on these matters, they took a new step to improve the foreign investment climate and to encourage the positive contributions of multinational enterprises to economic and social progress. They also tackled the broad question of how to ensure, within the OECD area and therefore in the world as a whole, more sustainable economic growth, free from the worst ravages of inflation, than they have been able to enjoy in recent years. Together, the ministers laid down a broad medium-term strategy which will guide their own individual policies for the management of their market economies over the next few years.

Basically, what the ministers agreed upon was that, after a brief post-recession recovery period (Germany, with the United States, is leading this) our market economies are quite unlikely to enjoy sustained growth unless inflation is progressively reduced and finally eradicated. In the very interest of enabling full employment eventually to be restored, first priority has to be given to the attack on inflation, especially in the countries where it is still particularly virulent. Without this, there can be no hope that reasonable kinds of behaviour will again be the rule in the private sector: for unless one can rely on appropriate price stability in the future, how can business have the confidence to make the costly investments required to underpin social progress, full employment and the flow of real resources to developing countries? Or how can labour relate wage bargaining to the progress of productivity rather than to future fears about the cost of living?

sustained growth

The corollary to this, as ministers agreed, is that even where, coming out of the recession, unemployed resources are important, our economies will be held to a growth path that is gradual and sustained. Fiscal and monetary policy, for example, will be designed not to achieve the fastest possible growth of employment in the shortest possible time: for, as experience shows, sharp booms are the surest path to new recessions and, in anything but the shortest horizon, aggravate the problems of joblessness far more than they alleviate them.

The essence of the strategy, then, is to restrain growth, in each of the next few years, to only a little more than the normal rate of expansion, absorbing unemployment more slowly but more surely than usual — and, of course, getting our growth rates back down to the "normal" path that is set by productivity and labour force increases when full employment conditions are once again approached.

I will not dwell now on the technical details of this approach, which have been worked out carefully at official level, nor on the statistical illustrations of the potential out-turn. I would just add, as a semi-technical footnote, that the governments attached a significant degree of importance to action on the supply side to ease possible future bottleneck problems of men, machines or materials (a point to which I shall return) and showed wide agreement as to the value — indeed, the essentiality — of obtaining adequate social consensus as to the aims of economic policy, an approach that some may call price and incomes policies and some may call concerted action.

political significance

But what I want, above all, to underline is the political significance of this action by OECD ministers.

First, it shows a significant growth in the realisation that an essential pre-condition for sustainable growth (as opposed to boom and bust) is the reestablishment of price stability and avoidance of new inflationary outbursts. Gone, I think, are the days when statesmen could seriously maintain that the best way of getting rid of inflation was to expand demand at maximum speed and trust that rising productivity would solve all problems on the cost and price front.

Second, it shows the realisation by the ministers of 24 busy government, each of which is occupied by pressing day-to-day concerns, that economic policy cannot appropriately be considered against the time-horizon of the next few months or quarters, but that it has to be looked at for its effects over the medium term—say, four or five years from now. I regard this as a breakthrough in politico-economic thinking, and one which will render far more fruitful than before the on-going tasks of international consultation and cooperation.

Third, and this I would underline heavily, it constitutes a meaningful expression, at the highest level, of the will of OECD governments to conduct their economic affairs rationally, far-sightedly, and internationally, rather than on the self-defeating basis of parochial interests and in the context of the election cycle. Here is an example of our member governments exerting combined leadership in a field that is of vital concern not only for their own constituents, but for the world at large, the very poor as well as the very rich. I believe it to be a most encouraging augury for the future.

I would like now to turn to the vulnerability of the world economy on the supply side, and here I want to suggest that the problems of management require a very high degree of cooperation between the governments of all countries, with north and south both accepting responsibility for the good conduct of the world economy. There are three principal areas that require action. I will not dwell further in this instance on two of them: energy which is being dealt with within the OECD and CIEC and on which you heard from Dr. Ulf Lantzke, Executive Director of the International Energy Agency some months ago; and food which is being dealt with in various forums, including the World Food Council, FAO, the about-to-be-established International Fund for Agricultural Development and OECD. But I would like to say something about commodities, and in particular about industrial raw materials.

commodity fluctuations

In the past, commodities have been the subject of international concern and discussion mainly, if not exclusively, from the point of view of our countries' relations with the developing countries. This may be due partly to a long period—roughly from the early 50's to the early 70's—of relatively low prices and ample supplies. The experience of the last few years has been different; the fundamental changes which have come about in the economic and political situation have led to a reassessment of the impact of commodity problems, and in particular of the importance of commodities in the context of a better management of the world economy, in the interest, *inter alia*, of a smooth flow of supplies to consuming countries.

This is not to say that less attention should be given to the special problems of developing countries whose economies are heavily dependent on commodities, in particular as major sources of export earnings and of budgetary revenues. Rather it is to stress that there is a common interest of all economic partners, be they producers or consumers, exporters or importers, developed or developing countries, to improve the circumstances in which commodities are produced, consumed and traded, and to search for new approaches to their problems.

What are the major problems for which solutions need urgently to be found? I believe I can identify three specific areas in which work is now going on and needs to be accelerated.

price stability

The first is instability. Almost no one nowadays, after the gyrations of 1973-76, would contest the need to achieve greater stability in commodity markets and prices. Instability is no doubt inherent in commodity markets; in addition to cyclical fluctuations in demand, and climatic variations in supply of agricultural goods, there are time-lags in investment decisions and in building up production in mineral products. Some variability of prices is only to be expected and indeed healthy, as price changes send signals to producers or consumers to vary their activities in the never-ending search for equilibrium. In this connection no one in their sober senses would argue in favour of rigidly unchanging prices. But there is occasion for concern in the extent to which imbalances, even small, are magnified in building up disproportionately wide price fluctuations. Doubling, trebling or more of individual prices in a matter of months, as well as halving or quartering in similar periods, are surely phenomena which bear no simple relation to underlying economic factors, and can clearly operate against the interests of both producers and consumers.

The second major problem, and one with particular relevance to industrial raw materials, covers adequacy of investment in raw material production. High cost of exploration, new equipment and plant have acted together with wide price fluctuations to increase the economic risks of investment. At the same time, the actual or potential political risks of investment in

developing countries has particularly discouraged adequate investment in those countries, even when they are economically more justified there than in developed areas.

The available information seems to confirm that, since the abrupt fall in prices, exploration expenditures have dropped, but also that the share of exploration expenditure for mineral non-fuel production in LDCs is now significantly less than the distribution of present production would suggest. These developments imply dangers for the proper functioning of the world economy. Experts agree that the needed increases in productive capacity is enormous, in particular in the raw materials sector, and might require huge capital in the next ten years. Even in the medium-term there are risks, given the synchronisation of the upturn in the developed economies, of being faced with bottlenecks and hence a new boom in commodity prices.

grave problems

The challenge is to seek solutions to these grave problems—and to find them urgently: even remedies for the longer run risks are liable themselves to involve such time lags before they become effective that they must be evolved and implemented as quickly as possible. In the search for solutions, the hallmark of the commodity field is the absence of panaceas, of "magic bullets" which solve everything overnight. It is thoughtful diagnosis and patient stitching together of sets of solutions tailored to the characteristics of each individual commodity which will win in the end.

That means that there are a number of possible measures to be considered. In the investment field, the US proposal for an International Resources Bank will, *inter alia*, be examined in the OECD and, with developing countries in the CIEC.

In the search for greater stability, techniques such as buffer stocks (for suitable commodities, to be sure) and production control, along with such institutional contributions as commodity agreements, or just increased consumer-producer dialogue, need to be assessed on a product by product basis. A resolution on an integrated programme for commodities adopted in Nairobi represents the first step in a broadly based approach to the problems involved.

Within such an approach, special attention must be given to developing countries, not only as producers but also as consumers. This is the third specific area. Insofar as stabilising action succeeds they would benefit from more stable prices, but there would remain two other price-related problems with implications for the developing countries.

varied interests

The first of these concerns commodity price levels. As major producers and exporters, the developing countries are very much concerned with this question, although their interests are far from uniform. As a group they are net exporters of industrial raw materials, but net importers of basic foodstuffs. Even in the case of industrial raw materials, production and exports are concentrated in a limited number of developing countries. Many of the most populous among them are net importers of both industrial raw materials and of foodstuffs. Thus a permanent increase in the relative price of basic foodstuffs or industrial raw materials would benefit some developing countries but would be detrimental to others—including the poorest among them. In most cases attempts to force up the price of commodities or to index them to industrial prices are likely to prove counter-productive because of product substitution and geographical diversification of sources of supply. Efforts to use the price mechanism to achieve desired income transfers have often proved tempting, and have sometimes been successful, but over the longer run have usually proved inefficient and self-defeating.

Second, the instability problem faces the developing countries in another and a wider context than prices alone; they need also more stability in export earnings. Being a function of both price and volume these can fluctuate unacceptably even with relatively stable prices; and other action to stabilise export earnings, either for certain categories of developing countries such as the poorest or for exports of specific commodities, should seriously be considered as an important contribution to steady development.

I want also to underline that, from whichever angle they are looked at, be it that of producers or of consumers, commodity problems can only be solved in a satisfactory manner for the functioning of the world economy by cooperation between developed and developing countries. The resolution adopted at Nairobi, in particular to the extent that it represented the first step to a broadly based approach to commodities, apart from the contentious question of the common fund, together with the continuation of the north-south dialogue in the CIEC, should contribute to strengthening that cooperation.

It is essential that OECD countries reinforce their own efforts and cohesion in elaborating such a comprehensive approach which would reconcile to the greatest possible extent the manifold divergencies of interests involved.

development cooperation

Let me now turn to an important aspect of the improvement of the world economy —relations with developing countries and development cooperation. A balanced approach to improved international economic relations between industrialised and developing countries requires positive measures to take account of the special problems of the developing countries. Interdependence in the effective working of the world economy does not automatically ensure a more equitable distribution of income. Moreover, with the substantial differences in levels of productivity, access to capital and technology, economic and financial strength and bargaining power that exist, much needs to be done to create more equal opportunities for the developing nations, and for all their peoples.

It is interesting, in this respect, to note the point of view of the Third World Forum, a group of eminent personalities from developing countries, and I quote:

"We wish to make it clear that the Third World is not demanding a massive redistribution of wealth of the rich nations. Nor is it seeking equality of incomes. It is asking for equality of opportunity."

Indeed development cooperation policies should not aim at a systematic redistribution of wealth amongst nations, but it should aim at meeting basic needs of people and promoting balanced and self-sustained growth. Since we have worked and we want to work through the developing countries' governments in our policies for development cooperation, we have to realise that the distributive policies of the recipient countries are a critical element in our development co-operation policies and in their credibility, and in the political support of our policies in this field. We also have to realise that the developing countries are not a homogenous group. They are increasingly a politically coherent group as they come into the international discussions, and there are certainly reasons to welcome this. But at the same time, we see a growing diversity of economic situations amongst these countries and I think that it is clear that in our policies for development co-operation we should take account of the consequent differences in their interests and needs.

severe handicaps

There are some countries which are severely handicapped by an accumulation of economic, social and natural disadvantages and constraints, which have not been able to profit from the expanding world economy and access to markets, finance and technology, and it is in these countries that the majority of the poorest people of the world live and where prospects for improvement are uncertain. There are, on the other hand, developing countries who have made impressive progress; who have been able to use opportunities for trade and have attracted foreign investment, technology and finance. Still, many of these countries continue to face serious problems of balance-of-payments adjustment, debt management and external financing in addition to their structural problems of regional and social imbalance, large-scale unemployment and continuing deficiencies in basic infrastructure and technological capabilities.

Unfortunately, the lower the absolute levels of income and development, the lower the rate of progress. A few figures will serve to illustrate the foregoing. During the last ten years, or more precisely from 1965-73—before the world recession of 1974-75—the poorest countries had growth rates of per capita income of only two per cent. At this rate the doubling time of income is 35 years. The more advanced non-oil producing developing countries achieved more than twice that rate at about five per cent (with a doubling period of about 15 years). This latter was considerably above the OECD per capita income growth rate of three per cent.

growing differences

These growing differences among developing countries call for increasing concentration of concessional financial development assistance on the poorer developing countries in order to help them build viable economies and increase the productivity and welfare of their people. We should also seek ways to help these countries in areas other than financial aid. As an example, Norway has recently granted fully duty-free entry for all types of goods for the least-developed countries.

Action to improve the situation of the stronger developing countries calls primarily for policy measures which will enhance their opportunities in fields of international trade, finance, investment and technology. These measures need not necessarily imply special advantages but rather the removal of handicaps and obstacles.

The on-going multilateral trade negotiations provide a unique opportunity to review tariff structures, other import impediments and international trade rules with a view to enhancing the trading opportunities of developing countries. However, this is not enough and we should look further to eliminating obstacles to developing countries taking part in international trade as equal partners.

Important negotiations are also currently taking place to improve the access of developing countries, especially the more advanced among them, to various types of long-term development financing facilities. I refer to the work on access to capital markets and on arrangements to increase the lending capacity of the World Bank and the regional financing institutions.

Securing full and effective access to scientific and technological knowledge is another important element in a coherent policy of improving economic opportunity for the developing countries.

We have, of course, been grappling with these issues for a long time and they are the subject of intensive work and negotiation in a variety of bodies. It is my impression, however, that unduly generalised approaches to some issues such as aid, commodity policies, trade preferences and access to science and technology which tended to treat developing countries as a homogeneous group, implying equal or parallel action for all of them, may have made it more difficult for the industrialised countries to respond positively. The need for balanced differentiation, adapting action to real needs and keeping some balance between genuine sacrifices for the poorest and arrangements emphasising mutuality of interests for the somewhat stronger, is also important to enhance political support by the public.

diverse needs

A great deal more analysis is required to assess the full implications for policies of the growing diversity of situations and needs among developing countries. Member governments have, at the recent OECD Ministerial Council, asked the OECD to work out coherent approaches taking these considerations into account. Our objective must be to focus our policies on the needs of the different groups of developing countries, not in order to aim at cheaper solutions but to reach better results.

The economic, social and political facts of present-day life in our planet, all firmly indicate that we are inexorably linked, for better or for worse. Let us bear this constantly in mind as we move towards better management of global interdependence and the world economy, and a new relationship with developing countries.

TRADE WINDS

Restructuring of Public Sector Banks

THE GOVERNMENT has announced the setting up of a commission to examine the restructuring of public sector banks. The commission will be headed by Mr Manubhai Shah, former central minister. It will have four other members. The commission is to submit its report within a year.

Terms of Reference

The terms of reference of the commission are to examine the existing organisational structure of the twenty-two public sector banks (viz. State Bank of India, its seven subsidiaries and the fourteen nationalised banks) keeping in view their existing and prospective geographical and functional coverage, the present stages of management development obtaining in them, and also the need for preserving and promoting factors motivating the employees and recommend such changes in the structure of the twenty two public sector banks, including their regrouping and reorganisation into optimum number of units and other measures as may be necessary to promote operational efficiency to secure: (a) a deeper and more direct involvement of public sector banks in the process of rural development having special regard to the implementation of the 20-Point Economic Programme; (b) an accelerated progress towards a more balanced regional development, both in terms of availability of banking services and deployment of funds; and (c) closer links between the public sector banks and other credit and development agencies at different levels to facilitate joint and coordinated action in formulating and implementing banking plans within the framework of national planning. The members of the commission are Mr N.C. Sen Gupta, Secretary, Department of Banking; Mr J.C. Luther, Executive Director, Reserve Bank of India; Mr J.N. Saxena, retired Chief General Manager, State Bank of India and formerly Chairman, Bank of India and Prof A.K. Datta, Economist, at present working as Vice-Chancellor, North Bengal University, Siliguri. Mr M.K. Venkatachalam, Joint Secretary in the Department of Banking will be the Secretary.

Formulations of Pesticides

Union minister of Agriculture and Irrigation, Mr Jagjivan Ram urged the experts of the pesticides industry to critically examine the cost structure for formulation to bring down the price.

Inaugurating the first national seminar on problems and prospects of the pesticides formulation industry organised by the National Alliance of Young Entrepreneurs (NAYE) recently he stated that in the wake of rapid development, the industry had introduced too many pesticides and formulations. Though the number of formulations had been reduced to a certain extent there was sufficient room for reducing them further. He called upon experts present to collect and consolidate authentic figures of the number of state-wise units producing pesticides and their total production. Such information would help the ministry in deciding whether additional capacities should be setup and in what areas they were required.

He indicated that over the past decade the number of registered formulators had risen to 800 from just a 100. Cautioning the industry against false advertisements to push up sales he remarked that losses of agricultural commodities in the field, while threshing and storage were sometimes inflated to increase sales. He also appealed to the industry to maintain quality control and to remain wary of the hazards associated with the increasing use of pesticides. In the context of the five million hectares of additional land being brought under irrigation under the 20-Point Programme and the cultivation of high yielding varieties, the minister emphasised the necessity of using chemicals for destroying insects and pests without affecting the quality of crops.

Indo-Pak Amity

The national flags of India and Pakistan went up their respective embassies in Islamabad and New Delhi on Saturday July 24, 1976 following the presentation of credentials by the two ambassadors. The Pakistan ambassador, Syed Fida Hassan, presented his credentials at Rashtrapati Bhawan. On the occasion, President, Fakhruddin Ali Ahmed, made a strong plea for Indo-Pak amity. "It is only by entering into a cooperative relationship that our two peoples will be able to bend all their energy for their upliftment and thus play their due role in the international sphere" he said. The Indian ambassador to Pakistan, Mr K. S. Bajpai presented his credentials to the President, Mr Fazal Elahi, at a brief ceremony in Islamabad on Saturday July 24, 1976. Welcoming Mr Bajpai, Mr Elahi assured him of his full cooperation in the task of promoting friendship between India and Pakistan. He added that a new era of cooperation had already started.

Expansion of Bombay High

The Oil and Natural Gas Commission (ONGC) is likely to enter into a long-term consultancy agreement, with a prominent government-owned firm of French oil cosultants for large-scale expansion of production of the Bombay High oilfields. A five-member team of the French company had arrived in Delhi recently for discussions with the ministry of Petroleum and the ONGC. They met the Petroleum minister, Mr K.D. Malaviya, and had talks with him. The team also had detailed discussions with the ONGC chairman and other members. The company is understood to have offered package consultancy on production and development problems in Bombay High. During the discussions, which were initiated during Mr Malaviya's recent visit to Paris, the minister ruled out crude-sharing as it was against India's policies.

Leipzig Autumn Fair

During the Leipzig Autumn Fair to be held from September 5 to 12, exhibitors from 12 countries will be showing machinery for all types of plastics and elastomers working and processing. These will include injection moulding, extrusion, foaming, welding, blow forming, vacuum forming, calendering and related processes. The largest exhibition will be that of Trusioma, the GDR combine that makes plastics and elastomers processing machinery, in hall 4 in the fair ground. The exporter for this equipment is Invest-Export who has sold Trusioma machines to almost 50 countries.

Other equipment to be displayed by Trusioma includes extrusion machinery from Plastmaschinenwerk Schwerin and Erste Maschinenfabrik, Karl-Marx-Stadt. From the latter comes a hot cut-off dry pelletizing extruder with a newly developed high-performance cooler. The twin-screw extruder that goes with it has been shown at previous fairs both as an individual unit and in complete lines, and has been awarded a Leipzig Fair Gold Medal.

Direct Taxes Collection

Direct taxes collection increased by 27 per cent in the last financial year, Mr S.R. Mehta, chairman, Central Board of Direct Taxes stated recently. The collections during 1975-76 rose to Rs 2,001 crores from Rs 1,577 crores in 1974-75. As many as 4.38 assessments were completed during the year compared to 4.19 million in the previous year. He added that tax dodgers would be tracked down relentlessly while honest tax-payers would receive courteous treatment and every facility to comply with the tax laws.

More than 2,080 persons had been detained under the provisions of Conservation of Foreign Exchange and Prevention of Smuggling Activities Act. A special unit had also been set up for dealing with their cases. Mr Mehta said the voluntary disclosure scheme had helped to un-earth a very substantial amount of hidden wealth and to create an atmosphere of faith and confidence between the government and the tax-payers. Mr Mehta hoped that in view of the substantial reduction in the rates of income and wealth tax, people would declare their income and wealth correctly.

The Corporate Sector

Some salient features of the overall performance of 1,650 selected medium and large public limited companies (each with a paid-up capital of Rs 5 lakhs or above) during the year 1974-75, are revealed by a study prepared by the Division of Company Finances of the Department of Statistics (RBI). The study shows a marked upward thrust in growth rates of sales, value of production and profits, higher rate of fixed assets formation accompanied by a steep growth in inventories resulting in a substantially larger capital formation, greater dependence on external sources of funds to finance assets formation, considerable increase in bank borrowings, appreciable fall in the percentage of debt to equity, a small decline in dividends distributed despite notable increase in distributable profits and steep rise in profits ploughed back into business.

The value of production in 1974-75 was Rs 12,304 crores while sales (net of rebates and discounts and excise duty and cess) amounted to Rs 11,833 crores. Since the rate of growth in value of production (28.9 per cent against 11.2 per cent) was higher than in sales (26.5 per cent against 8.8 per cent) stocks of finished goods and work-in-progress increased considerably by Rs 471 crores in 1974-75 as compared with the rise of Rs 191 crores in 1973-74.

With a higher non-operating surplus of Rs 44 crores (against Rs 22 crores), profits before tax crossed the Rs 1,000 crore mark in 1974-75, recording a phenomenal increase of 36.8 per cent over 1973-74, which itself had witnessed 23.7 per cent growth in profits before tax. Tax provision was higher by 38.7 per cent and profits after tax by 35.1 per cent. Despite the larger after tax profits (Rs 521 crores), dividends distributed showed a small decline and profits ploughed back into business increased sharply by 61.2 per cent (from Rs 229 crores to Rs 368 crores), compared with 51.4 per cent. Gross profits as percentage of (i) sales and (ii) total net assets and profits after tax as percentage of net worth stood at higher levels in 1974-75 than in 1973-74. Both ratios, viz, dividends to net worth and ordinary dividends to ordinary paid-up capital suffered declines.

Water Supply and Sewerage Schemes

The Central Public Health and Environmental Engineering Organisation has given technical approval to nine schemes under the National Water Supply and Sanitation Programme. Out of these schemes, three each are located in Haryana and Punjab and one each in Goa, Orissa and Assam. These schemes are estimated to cost about Rs 3.67 crores. In Haryana, Focal Water Supply Scheme in Sonipat district will cost about Rs 25.2 lakhs; Maheru group of 6 villages water supply scheme in Bhiwani district Rs 19.9 lakhs and Asadpur Kehra, Kota Kulana etc. villages water supply scheme in Rohtak district will be completed at an estimated cost of Rs 15.5 lakhs. Three schemes in Punjab include Bhanguri and Bhawlada Water Supply Scheme in Gurdaspur district; Bakhriwala, Akbarpur Khudal etc. villages water supply scheme in Bhatinda district and Mehraj Water Supply Scheme in district Bhatinda are estimated to cost about Rs 42.5 lakhs, Rs 13.8 lakhs and Rs 14.7 lakhs respectively. The remaining three schemes, Vasco Sewerage Scheme Goa; Jharsuguda Town Water Supply Scheme in Sambalpur district of Orissa and Hailakandi Town Water Supply Scheme in Cachar district of Assam will be completed at an estimated cost of Rs 1.27 crores, Rs 54.5 lakhs and Rs 54.0 lakhs respectively.

Committee on Indirect Taxes

In pursuance of the announcement made by the Finance minister in his budget speech on March 15, 1976, the government has decided to appoint a 7-member committee to review the existing structure of the indirect taxes in the country. Mr L.K. Jha, Governor, Jammu & Kashmir is the Chairman. Other members of the committee are: Mr M.V. Arunachalam, President, Federation of Indian Chambers of Commerce and Industry: Mr R.J. Chellaiah, Director, National Institute of Public Finance and Policy; Mr J. Sen Gupta, President, Bengal Chambers of Commerce; Mr G.B. Newalkar, Managing Director, Maharashtra Mineral Corporation Limited; Dr Man Mohan Singh, Chief Economic Adviser to the government of India and Mr K. Narasimhan, Member (Tariff), Central Board of Excise and Customs. The committee will be assisted by a secretary and the necessary complement of staff.

The terms of reference of the committee include review of the existing structure of indirect taxes, examination of the role of indirect taxation in promoting economic use of scarce resources, structure and levels of excise duties, the impact of these duties on prices and costs, the cumulative effect of such duties, their incidence on various expenditure groups, the scope for widening the tax base and increasing the elasticity of the system.

Value Added Tax

The committee will also examine the feasibility of adopting some form of value-added tax in the field of indirect taxation where appropriate and if found feasible to suggest the appropriate stage to which it should be extended having regard to Indian conditions, i.e. whether the stage of coverage should be manufacturers, wholesalers or retailers.

The precise terms of reference of the committee are:

(i) To review the existing structure of indirect taxes—central, state and local—in all its aspects;

(ii) To examine the role of indirect taxation in promoting economic use of scarce resources;

(iii) To examine the structure and levels of excise duties, the impact of these duties on prices and costs, and the cumulative effect of such duties, their incidence on various expenditure groups, the scope for widening the tax base and increasing the elasticity of the system;

(iv) To examine the feasibility of adopting some form of Value Added Tax in the field of indirect taxation where appropriate and, if found feasible, to suggest the appropriate stage to which it should be extended having regard to Indian conditions, i.e. whether the stage of coverage should be manufacturers, wholesalers or retailers;

(v) To examine whether and how far it would be advisable to assist any particular industry or particular sectors of an industry by grant of concessions in indirect taxes; in doing so, the committee will doubtless take into account all the normal canons of taxation, and the balance of administrative convenience. In those cases where these devices are found to be advisable, to suggest norms for the same;

(vi) To examine the structure and levels of import duties from the point of view of import trade control, protection to indigenous industry and pricing of indigenous products and suggest changes, if necessary;

(vii) To advise the government on the steps to be taken to implement the recommendations made, including changes in the administrative and organisational set up;

(viii) To suggest changes, if any, required, in the constitution and in the related taxation statutes, for the implementation of the changes suggested in the tax structure and having regard to the revenue needs of both the centre and the states;

(ix) To make any other recommendations germane to the enquiry.

Fresh Look

The last comprehensive enquiry into the system of taxation in the country was conducted by the Taxation Enquiry Commission (1953-54) under the chairmanship of Dr John Mathai. Since then a number of committees have studied specific aspects of taxation; but no comprehensive enquiry into the system as a whole has been made. It is considered by the government that the time is opportune to have an integrated and fresh look at the entire indirect tax system—central, state or local. The committee can suggest changes, if any, in the constitution and in the related taxation statutes. The committee will submit its report within one year.

Expenditure on R & D

About 80 per cent of the total expenditure on the research and development activities in the country is incurred by the major scientific departments in the central and state sectors. The departments are: The Indian Council of Agricultural Research, The Council of Scientific and Industrial Research, The Indian Council of Medical Research etc. As a result of a nation-wide survey conducted by the National Committee on Science and Technology (NCST), the total expenditure on R & D efforts in different areas of science and technology in India during 1973-74 was about Rs 246 crores. About 91 per cent of this was spent by the central and state governments and the balance of nine per cent by the private sector. The total expenditure on R & D accounts for nearly 0.5 per cent of the nation's Gross National Product (GNP). About 55 per cent of the expenditure was incurred on agricultural research in the state sector.

About Rs 19.32 crores was spent by 191 companies registered with the Department of Science and Technology as on February 1, 1975. The total S & T personnel on April 1, 1974 is estimated to be around 1.5 million. Of these, about 95,000 were employed in R & D establishments and 30 per cent of them possess degree in engineering, medicines or post-graduate degrees in natural science or agriculture. Of the science and technology personnel employed in the main R & D establishments of the central sector, 78 per cent were in the pay scales below Rs 650 to Rs 1200. Of the S & T personnel employed in the private sector 40 per cent were getting Rs 800 per month or more. The R & D efforts are being stepped up during 1976-77. The outlay on science and technology is Rs 91.28 crores for the department of Science & Technology; Atomic Energy, Space etc. Rs 40.67 crores for other central ministries including Steel and Mines, Energy, Irrigation etc. Rs 26.35 crores for ministries of Petroleum, Chemical, Works & Housing etc.

Assistance from UK

Instrumentation Limited, a public sector enterprise, has embarked on its modernization scheme by signing a technical assistance and know-how agreement with a British concern. The payment to be made to George Kent Limited of England for a "total package" is £330,000 over the next five or six years. The agreement is for ten years and renewable for another ten years, according to Brigadier D. Swaroop, Managing Director of the Instrumentation Limited.

With the modernization now to be introduced as a result of the technical collaboration with George Kent Limited, a part of the Brown-Boveri group, Brigadier Swaroop stated that the company could be "in a much better position to compete in the world market with other reputed firms for turnkey instrumentation jobs in any industry". The agreement permits export of instrumentation to any country and also for continued availability of know-how pertaining to modifications and improvements for the contracted products.

French Bank Rate

The French Bank Rate was raised recently from 8 to 9.5 per cent. This announcement was made by the French Central Bank.

Transfer of Technology

The prime minister opened a four-day seminar and demonstration-oriented exhibition on transfer of technology to rural India in Delhi on July 27. About 120 experts had worked on various recommendations of the 15 working groups constituted to prepare the basic material for the seminar. The experts included vice-chancellors and economists. Fifty papers, covering various aspects of the transfer of technology came up for discussion. The demonstration-oriented exhibition was the first of its kind in the country. Among other things the demonstration revealed how storage of grain could be scientifically done at the village level.

Indo-Soviet Shipping

Freight rates for 10 major items which move on the Indo-Soviet shipping route and occupy large space will be restructured. An agreement to this effect has been reached by the shipping lines of the two countries operating on the Indo-Soviet shipping service at the recent meeting of the commercial level delegations. The freight rates will be restructured on the basis of weight-measurement of these items instead of weight-rates only. At the talks the number of sailings were decided upon. On the India-USSR route there will be 84 sailings and on the reverse route there will be 60 sailings, with each side ensuring full loading of ships and regulating sailings to Black Sea ports.

On the question of general freight increase, both sides noted that operating costs have gone up by about 13.5 per cent. Sinse the last hike effected in 1974. Both sides considered the possibility of neutralising the increase in costs to the extent of 12.5 per cent but deffered the move until a further reveiw of various costing aspects in October-November. However, both sides opted for a temporary increase of five per cent till December.

Export of Shrimps to USA

The USA, a major buyer of Indian Shrimp, has decided not to impose any restrictions or increase the tariff on imports of *shrimp* to that country. This decision has been taken by the American President on the recommendations of the US International Trade Commission which investigated into a petition filed by the domestic *shrimp* industry of the US. The petition, among other things, had sought the imposition of tariff and quota restriction on the import of shrimp into the US. The US government's decision had been communicated to the Marine Products Export Development Authority in India.

EEC Tobacco Quota

Under an amendment to the GSP regulation covering unmanufactured flue cured Virginia tobacco, the tariff quota of 36,000 tons is being extended from August 1 to include tobaccos valued at 280 units of account or more per 100 kg. The preferential rate of duty for these tobaccos will be seven per cent which is that envisaged under the 1977 GSP regulation against an effective rate of some 5.5 per cent for the cheaper tobaccos. The amendment paves the way for next year's regulation which is expected to provide for a tariff quota of 60,000 tons and covers both and sun cured varieties of Virginia tobacco.

COMPANY AFFAIRS

English Electric

The directors of English Electric Company of India have recommended a dividend of Rs 2.40 per share for the year-ended March 31, 1976. It will be paid on or after September 20, 1976. The company's total income recorded a modest rise to Rs 13.59 crores from Rs 12.97 crores in 1974-75 while the profit before tax was a shade higher at Rs 2.82 crores as against Rs 2.65 crores in the previous year. After providing Rs 1.75 crores for taxation and Rs 54.00 lakhs for payment of dividends, the balance of Rs 52.86 lakhs was transferred to the general reserve. The annual general meeting of the company will be held on Semptember 2.

Wellman Incandescent

Wellman Incandescent India Ltd has reported substantial improvements in its working results during the year ended March 31, 1976. Sales went up to Rs 2.51 crores from Rs 2.02 crores in 1974-75 while gross profit, after providing for depreciation, increased from Rs 20.41 lakhs to Rs 22.00 lakhs. After provisions and adjustments a sum of Rs 6.24 lakhs was transferred to the general reserve. The directors have proposed a dividend of Rs 1.20 per equity share and it will absorb Rs 3.00 lakhs.

The company had orders on hand at the end of May 1976 at Rs 2.92 crores. The expansion programme is underway and the company hopes to achieve the licensed capacity progressively. During the year Wellman Engineering Corporation Ltd, UK, sold 25,720 equity shares of the company to Indian residents, thereby reducing the foreign shareholding to less than 40 per cent.

Nirlon Synthetic

Nirlon Synthetic Fibres and Chemicals' plans for setting up depolymerisation plant and for installing balancing equipment with a view to broad-base its production are making satisfactory progress. The installing of depolymerisation plant will involve a capital outlay of Rs 1.92 crores which will enable the company to recover caprolactum from nylon yarn waste, which otherwise would have been sold at throw away prices. This plant will therefore not only enable the company to reduce the cost of caprolactum consumption but will also help it to increase its production as a result of additional availability of caprolactum which is its raw material.

The company also proposes to set up a conveyor belting plant at Roha, a backward area in Maharashtra state. The plant will have an installed capacity for manufacturing 1200 tonnes of conveyor belts and 1.2 million fan belts and V belts per year. The plant is expected to go into production during 1978. The total capital expenditure involved in this project will be around six crores of rupees.

MICO

Motor Industries Company Ltd has reported higher sales at Rs 51.21 crores during the year ended December 31, 1975 as against Rs 42.85 crores in 1974. While the profit, after providing for depreciation, too improved to Rs 8.52 crores from Rs 7.78 crores in the preceding year. The directors have recommended a final dividend of Rs 8 on fully paid shares which with the interim dividend makes a total of 14 per cent for 1975. Pro-rata dividend will be paid on partly-paid shares. The proposed dividend will absorb Rs 1.17 crores. Exports have again recorded a significant increase of Rs 8.76 crores during the current year from Rs 7.33 crores in the previous year.

Syndicate Bank

Syndicate Bank has made spectacular progress during the seven years after nationalisation from July 19, 1969 to June 1976. Deposits increased by more than four times, from Rs 126.86 crores to Rs 553.59 crores. The bank's deposit accounts increased from 1.3 million to 4.9 million and borrowing accounts from 262,000 to 800,000. Eighty-eight deposit accounts had balances of less than Rs 1,500 and more than 56 per cent of borrowing accounts were for amounts less than Rs 1,000.

The number of branches increased from 306 to 800 out of which more than 65 per cent are in rural and semi-urban areas. In July 1969 Syndicate Bank was the only bank operating in 121 centres and as on today it is the only bank operating in 264 centres. Apart from fullfledged branches, the bank is also serving the people through its extension counters, evening counters, spot payment counters and pensioners' counters.

Advances rose by more than four times from Rs 90.36 crores to Rs 431.84 crores. The bank in an attempt to fulfil the social objectives, placed increased emphasis on priority sector advances. The advances in these sectors increased from Rs 28.3 crores to Rs 197.15 crores, more than a seven-fold increase. The priority sectors cover agriculture, small scale industries, transport operators, retail trade, assistance to students, self-employed and professionals and small business. The number of accounts in these sectors went up from about 75,000 and to over 176,000.

During the period after nationalisation, Syndicate Bank was one of the first banks to sponsor regional rural banks. The first such bank was opened in Moradabad in Uttar Pradesh and the second one in Pataudi in Haryana. Both the banks are doing well.

Karur Vysya Bank

Karur Vysya Bank Ltd, has reported all-round improvement in its performance during the year ended December 31, 1975. Deposits during 1975 touched the record figure of Rs 29.04 crores, registering an increase of 22.8 per cent which in fact was well above the average deposit growth of 16 per cent in the banking system as a whole. Advances, including bills purchased and discounted, too were appreciably higher at Rs 17.26 crores as against Rs 13.16 crores in 1974.

Gross income of the bank amounted to Rs 3.60 crores as compared to Rs 2.34 crores in the earlier year. The bank was able to earn a record profit of Rs 59.12 lakhs which after providing Rs 20.28 lakhs for income-tax and surtax, Rs 17.50 lakhs for seven per cent interest (levy) tax and Rs 7.20 lakhs for ex-gratia (Bonus), resulted in a net profit of Rs 14.14 lakhs. Out of this, a sum of Rs 5.50 lakhs was transferred to general reserve, Rs 5.00 lakhs to bad debts reserve, Rs 0.24 lakh to development reserve and 0.40 lakh to investment reserve. After other adjustments, the surplus available amounted to Rs 3.09 lakhs. Out of this, a sum of Rs 15,000 was set apart for charity fund, Rs 2.40 lakhs for payment of dividend at the rate of 12 per cent and Rs 20,000 towards diamond jubilee dividend of one per cent. The surplus, after these appropriations, amounted to Rs 34,357.

During the year the bank opened 19 branches and an extension counter at A.M. Jain College, Meenambakkam, Madras, including three branches in metropolitan centres. The bank is taking effective steps to open further branches in 1976.

Gujarat Export Corporation

Gujarat Export Corporation has completed ten years of its operation, and the board of directors, besides recommending one bonus share for every two shares held have declared a dividend of 15 per cent for the year ended March 31, 1976

During 1975-76 the corporation participated in international exhibitions such as Indian Trade Exhibition at Seoul, exclusive Indian Exhibition 1975 at Dubai and Zambia Trade Fair, 1975-76 The corporation exported during 1975-76 about 52 products, comprising mainly such items as, engineering goods, handicrafts, processed fruits and foods, plastic goods, rubber goods, colours and chemicals, pharmaceuticals etc, to as many as 35 countries around the globe. The corporation earned during the year foreign exchange to the tune of Rs 319 lakhs as against Rs 214 lakhs in 1974-75.

IDBI

The assistance sanctioned and disbursed by the Industrial Development Bank of India touched a new high during 1975-76 (July-June). The assistance sanctioned amounted to Rs 470.1 crores, recording an increase of 38 per cent over the previous year's figure of Rs 340.4 crores.

The number of applications sanctioned at 9925 registered an increase of 41 per cent over the preceding year's figure of 7031. The assistance utilised in 1975-76 was also higher at Rs 291.5 crores, as against Rs 211.7 crores in 1974-75 — an increase of 38 per cent.

Direct industrial assistance sanctioned rose from Rs 78.3 crores in respect of 66 projects during 1974-75 to Rs 116.4 crores covering 108 projects in 1975-76 — an increase of about 49 per cent in the quantum of sanction and of 64 per cent in the number of projects assisted. Of 108 projects, 58 were located or will be located in the specified backward districts; concessional assistance sanctioned to such projects was Rs 55.8 crores. Around 60 per cent of the direct assistance was in respect of 56 projects in the public, joint or cooperative sectors. Industry-wise, about 45 per cent of direct assistance was claimed by 39 projects belonging to five top priority industries viz., fertilisers, cement, paper, sugar and textiles. The balance sanctions were in respect of other core sector industries such as basic and miscellaneous chemicals, iron and steel, and industrial and electrical machinery.

The total effective sanctions since the inception of IDBI now amount to Rs 1739.3 crores (excluding guarantees of Rs 31.4 crores), the cumulative utilisations being Rs 1229.6 crores.

News and Notes

IHI (Ishikawajima-Harima Heavy Industries Co Ltd), Japan, was recently awarded an order by the ministry of Electricity and Water, government of Kuwait, for three 6,000,000 imperial gallons per day capacity sea water desalination plants. The contract price of these plants totals about 17,000 million yen, including the reserve supplies.

The three plants, to be constructed at Doha, Kuwait, will desalinate sea water by utilizing the steam provided by three 150,000 kw thermal power stations to be constructed in juxtaposition with the plants and will supply the urban district with service water. IHI will undertake all the construction works of the desalination plants on a turn key basis. Date of delivery is fixed for within 30 months from the signing of the official contract. With this new order, the total number of desalination plants ordered from IHI by Middle East countries comes to 16.

The **Indian Council of the Institution of Production Engineers (UK)** has selected Mr I.K. Gupta, chairman and managing director of Indian Telephone Industries, for the award of Sir Walter Puckey prize for his outstanding contribution in production engineering in India for the year 1975.

The **Government Electric Factory (GEF)**, an undertaking of the Karnataka government, will be taken over by a newly-formed public limited company known as 'Karnataka Vidyut Karkhane Limited' from August 1. The government had decided to convert the GEF into a public limited company with cent per cent equity held by the state to allow its expansion and diversification.

New Issue

Nagpal Stainless Steels Ltd, is offering 300,000 equity shares of Rs 10 each for cash at par to the public for subscription. The subscription list opens on July 29 and will close on August 9 or earlier but not before August 2. Each and every shareholder will be entitled to purchase at a shareholder's discount of 15 per cent on the company's listed retail prices the company's products from the company's dealers every financial year for the value equivalent to the face value of the shares held by them. This scheme will remain in operation up to the financial year ending March, 1978. The board of directores may renew the scehme for further period.

The company is engaged in the manufacture of special quality stainless steel wares such as sundae cups, mustard pots and cream jugs to cater to the needs of sophisticated consumers, more particularly to export markets. The company proposes to expand its production so as to satisfy the increased demands mainly for export and partly for domestic consumption. Since it is difficult to procure sheets and strips of the right thickness, the company has decided to set up a rolling mill unit. The proceeds of the present issue will be utilised to meet a part of the finance required for the implementation of the project.

Capital and Bonus Issues

Consent has been granted to 13 companies to raise capital of over Rs 63 million. The details are:

Shalimar Wires and Industries Ltd., Calcutta, has been accorded consent, valid for three months, to capitalise Rs 1.5 million 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 three equity shares held.

Steelcast Bhavanagar Pvt Ltd, have been accorded consent, valid for three months, to capitalise Rs 8,00,000 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 each equity share held.

Mercantile Credit Carporation Ltd, have been accorded consent, valid for three months, to capitalise Rs 250,000 out of its general reserve and issue fully paid equity share of Rs 10 each as bonus shares in the ratio of one bonus share for every six equity shares held.

Engineering Contruction Corporation Ltd. Bombay, have been accorded consent, valid for three months, to capitalise Rs 7 million 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 each equity share held.

Bharat Forge Company Ltd, Bombay, have been accorded, consent valid for three months, to capitalise Rs 9.3 million 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.

Kirloskar Commins Ltd, Poona, have been accorded consent, valid for three months, to capitalise Rs 21 million out of its general reserve and issue fully paid equity shares as bonus shares in the ratio of one bonus share for each equity share held.

The India Thermit Corporation Ltd, Kanpur, have been accorded consent, valid for three months, to capitalise Rs 1.55 million 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 two equity shares held.

Tamil Nadu Sugar Corporation Ltd, Madras, have communicated to the government of their proposals to issue capital under Clause (5) of the Capital Issues (Exemption) Order, 1969 for Rs 10 million divided into one million equity shares of Rs 10 each to be issued privately to the cane growers and to general public, for cash at par. The proceeds of the issue are to be utilised to meet a part of the cost to be incurred in putting up a sugar factory in Kurungulam, Tanjavur district.

Dhunseri Tea and Industries Ltd., Calcutta, have been accorded consent, valid for three months, to capitalise Rs 500,000 out of its general reserve and issue fully paid equity share of Rs 10 each as bonus shares in the ratio of one bonus share for every three equity shares held.

Kerala Urban Development Finance Corporation Ltd., Calcutta, have been accorded consent, valid for 12 months, for the issue of debenture bonds of Rs 10 million with an option to retain additional subscription to the extent of 10 per cent of the notified amount of Rs 10 million in the event of over-subscription. The proceeds of the issue will be utilised for rendering financial assistance by way of loans and advances to the urban and local bodies in Kerala state for implementation of their development schemes.

Excel Graphics Private Limited, Valsad, have been accorded consent, valid for three months, to capitalise Rs 200,000 out of its general reserve and issue fully paid equity shares of Rs 500 each as bonus shares in the ratio of one bonus share for each equity share held.

Meters and Instruments Private Ltd. New Delhi, have been accorded consent, valid for three month, to capitalise Rs 400,300 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 each four equity shares held.

Nathani Steel Private Ltd. Bombay, have been accorded consent, valid for three months, to capitalise Rs 200,000 out of its general reserve and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of four bonus shares for every five equity shares held.

Dividend

(per cent)

Name of the company	Year	Equity dividend declared for This year	Previous Year
Higher Dividend			
Saraspur Mills	Dec. 31, 75	16	12
Paper Mills Plant	March 31, 76	12	10
Universal Cables	March 31, 76	20	16
Same Dividend			
Aruna Mills	Dec. 31, 75	15.0*	15.0
Elgin Mills	Dec. 31, 75	Nil	Nil
Elphinstone Spg. & Wvg.	Dec. 31, 75	Nil	Nil
New Great Eastern Spg.	Dec. 31, 75	12	12
Patel Cotton Co.	August 31, 75	Nil	Nil
Dimakusi Tea Co.	Dec. 31, 75	30	30
Lower Dividend			
Laxmi Vishnu Textiles	Dec. 31, 75	Nil	12
New Swadeshi Mills	March 31, 76	Nil	8

* On the enlarged capital

Wholesale prices

THE OFFICIAL wholesale prices index (base 1961-62=100) stood at 305.2 during the week-ended July 3, 1976 as against 301.9 for the earlier week. The all-commodities index at this level was lower by 1.7 per cent when compared to the corresponding week of the last year, but was higher by 1.1 per cent than that of a week ago. It may be mentioned that the increase in the general index during the week ended July 3, 1976 is accounted for mainly by an increase in the prices of oilseeds, edible oils, gur, gram, tea, bananas, raw cotton and cotton yarn.

Food Articles

The index for *"food articles"* which stood at 336.3 (as against 331.0 for the previous week) was lower by 7.8 per cent when compared to the corresponding week of the last year.

Compared with the preceding week, the index was, however, higher by 1.6 per cent due to an increase in the prices of groundnut oil (+10 per cent), bananas (+5 per cent), masoor, gur, khandsari, cummin & betelnuts (+4 per cent each), ragi, potatoes, coconut oil & tea (+3 per cent each), bajra, gram, cashewnuts & vanaspati (+2 per cent each) and rice, maize, barley, mustard oil, fish, sugar & coffee (+1 per cent each).

However, the prices of moong (—6 per cent), onions (—4 per cent), oranges & turmeric (—2 per cent each), gingelly

Index Numbers of Wholesale Prices by Groups & Sub-groups

(Base : 1961-62=100)

Group & Sub-group	Week ended 3-7-76	26-6-76	5-6-76	5-7-76
Food Articles	**336.3**	**331.0**	**316.9***	**364.6**
Foodgrains	305.6	303.0	295.3	391.0
Cereals	303.3	300.3	293.7	381.1
Pulses	316.0	318.0*	302.6*	435.4
Fruits & Vegetables	335.2	325.1*	309.5	292.1
Milk & milk products	325.4	325.7	321.5	358.8
Edible oils	285.3	271.3	237.9	341.4
Fish, eggs & meat	680.0	676.6	645.4*	559.6
Sugar & allied products	356.3	347.6	320.3*	327.1
Others	329.4	324.9	303.7*	314.6
Liquor & tobacco	**321.9**	**329.1**	**328.8**	**213.0**
Liquor	187.0	197.0	197.0	194.2
Tobacco	327.7	328.9	334.9	319.4
Fuel, power, light & lubricants	**269.3**	**369.0**	**368.5**	**348.6**
Coal	331.6	331.6	331.6	331.6
Coke	423.4	422 4	423.4	423.4
Mineral oils	421.3	421.3	421.3	402.5
Rectified spirit	1404.7	1404.7	1404.7	547.2
Electricity	251.6	251.6	251.6	223.4
Castor oil	350.2	321.8	271.8	264.2E
Industrial raw materials	**303.5**	**296.3***	**271.6**	**276.3**
Fibres	304.3	303.7*	286.5	233.8
Oilseeds	321.0	306.6	260.3	324.1
Minerals	219.2	219.2	219.2*	227.7
Others	272 2	275.2*	278.6*	252.2E
Chemicals	**295.0**	**295.0**	**295.0***	**329.4**
Machinery & transport equipment	**260.9**	**260.7**	**269.7**	**261.5**
Electrical machinery	262.8	262.8	262.8	263.6
Non-electrical machinery	287.6	287.6*	287.6*	263.4
Transport equipment	211.2	210.4	210.2	215.6
Manufactures	**259.6**	**258.8**	**258.2**	**253.7**
Intermediate products	**329.4**	**326.3***	**318.9***	**304.0**
Textile yarn	250.3	245.3*	234.5*	216.4
Leather	318.5	318.5	305.7	279.2
Metals	418.6	417.2	419.2	395.3
Linseed oil	287.5	275.3	222.9	272.1
Finished products	**242.7**	**242.5**	**243.3**	**241.6**
Textiles	218.2	218.3	223.2	222.4
Metal products	298.9	298.9	298.9	297.6
Non-metallic products	301.6	299.6*	296.6	277.5
Chemical products	263.6	263.6	263.6	265.6
Leather products (Shoes)	147.1	147.1*	147.1*	149.6
Rubber products	245.5	244.4*	244.4	233.8
Paper products	222.0	222.0	222.0	230.2
Oilcakes	330.1	327.3	233.8*	230.6E
Miscellaneous	174.0	174.0	172.4	174.5
All commodities	**305.2**	**305.9***	**292.6***	**310.4**

E = Estimated * Revised

Source : Office of the Economic Adviser, Deptt. of Industrial Development.

oil & black pepper (—1 per cent each) declined.

Liquour & Tobacco

The index for *"liquor & tobacco"* fell by 0.4 per cent to 321 as against 323.1 for the earlier week due to a fall in the prices of raw tobacco (—1 per cent).

Fuel, Power Light & Lubricants

The index for *"fuel, power light & lubricants"* group worked out to 369.3 as against 369.0 for the earlier week. Prices of castor oil (+9 per cent) increased during the week.

Industrial Raw Materials

The index for *"industrial raw materials"* went up to 303.5 from 296.8 in the last week owing to an increase in the prices of linseed (+12 per cent), castor seed (+11 per cent), cotton seed (+6 per cent), rapeseed (+5 per cent), groundnuts & copra (+4 per cent each) raw cotton, raw silk & gingelly seed (+1 per cent each). However, the prices of raw jute & mesta (—2 per cent) declined.

Chemicals

The index for *"chemicals"* group stood stationary at its previous work's level of 295.0. Compared to the corresponding week of the last year, the index showed a fall of 10.4 per cent.

Machinery & Transport Equipment

The index for *"machinery & transport equipment"* group worked out to 260.9 as against 260.7 for the earlier week. Compared to the corresponding week of the last year, the index registered a fall of 0.2 per cent.

Manufactures

"Manufactures" group comprising of (a) intermediate products and (b) finished products, increased by 0.3 per cent to 259.6 as against the last week's level of 258.8.

Intermediate Products

The index for *"intermediate products"* advanced by 1.0 per cent to 329.4 as compared to 326.3 for the last week due to an increase in the prices of linseed oil (44 per cent), cotton yarn, coir yarn, zinc & tin (+2 per cent each) and brass sheets & lead (+1 per cent each).

Finished Products

The index for *"finished products"* stood at 242.7 as against 242.5 for the last week. Prices of other rubber products (+2 per cent) and cement & oilcakes (+1 per cent each) increased.

Index Number of Security Prices — All India

(Base : 1970-71 = 100)

Week ended	1975 July 5	1975 June 5	1975 June 12	1976 June 19	1976 June 26	1976 July 3
Government and semi-government securities						
Government of India	96.3	96.5	96.5	96.6	96.6	96.7
State governments	95.2	95.4	95.4	95.4	95.5	95.6
Semi-government institutions	99.1	99.4	99.3	99.4	99.4	99.4
Debentures	101.1	101.6	101.6	101.8	101.7	101.8
Preference shares	93.1	90.0	90.0	90.1	90.2	90.5
Ordinary shares	85.5	80.8	80.8	81.0	81.2	81.2
Tea plantations	90.8	96.2	97.7	100.2	101.0	100.8
Cotton textiles	112.6	125.1	126.6	126.7	126.5	127.8
Jute textiles	107.0	93.5	92.8	92.5	92.4	92.3
Silk, woollen and rayon textiles	103.9	81.6	82.4	82.5	82.5	85.4
Iron and steel	104.5	122.2	127.0	131.1	128.5	128.6
Aluminium	43.0	48.2	48.5	49.9	52.4	48.8
Transport equipment	52.1	53.5	56.7	60.0	61.6	60.5
Electrical machinery, apparatus, appliances, etc.	62.2	66.2	68.7	73.1	73.7	72.5
Chemical fertilisers	85.5	91.6	93.5	96.6	97.7	97.2
Other basic industrial chemicals	134.0	162.6	163.6	169.5	169.6	167.8
Cement	93.0	115.1	116.9	121.2	122.3	122.0
Paper and paper products	78.7	89.9	91.0	93.1	94.1	94.6
Rubber and rubber products	141.3	132.6	133.8	137.2	138.1	137.8
Electricity generation and supply	80.7	63.2	64.6	68.6	70.4	72.0
Shipping	59.0	63.7	65.0	67.9	69.0	69.7
	125.2	149.7	149.6	153.5	156.6	157.5

Source : Reserve Bank of India.

Reserve Bank of India (Rs. lakhs)

	July 2, 1976	A week ago	A month ago	A year ago
Issue Department				
Notes held in banking department	41,27	37,59	19,82	12,46
Notes in circulation	7,173,22	7,137,04	7,180,55	6,581,27
Total notes issued	7,214,50	7,174,63	7,200,36	6,593,73
Gold coin and bullion	182,53	182,53	182,53	182,53
Foreign securities	546,74	546,74	371,74	121,74
Rupee coin	14,79	14,92	10,64	4,08
Government of India rupee securities	6,470,45	6,430,45	6,635,45	6,285,39
Banking Department				
Deposits of cent. govt.	50,98	56,87	50,18	58,16
Deposits of st. govt.	19,10	11,71	12,39	10,76
Deposits of banks	666,00	656,86	712,92	550,05
Other deposits	2,162,48	1,919,99	1,876,23	994,74
Other liabilities	1,867,29	2,056,01	2,007,21	1,855,37
Total liabilities or assets	4,765,85	4,701,44	4,658,92	3,469,08
Notes and coins	41,34	37,71	19,91	12,52
Balances held abroad	1,219,36	1,231,60	1,221,72	412,34
Loans and Advances to :				
State governments	224,21	320,14	298,18	362,52
Scheduled comm. banks	1,043,58	760,34	892,02	251,37
State coop. banks	240,43	226,52	204,57	356,38
Other loans and advence	594,08	542,58	543,78	404,63
Bills purchased and discounted :				
Internal	142,04	144,04	116,06	120,46
Govt. treasury bills	261,82	249,98	317,37	248,18
Investments	193,49	362,34	244,86	912,32
Other assets	805,50	826,19	800,43	388,35

Scheduled Commercial Banks

(Rs. lakhs)

	July 2, 1976	A week ago	A month ago	A year ago
Aggregate deposits	15,171,95	15,056,27	14,746,47	12,580,56
Demand deposits	6,159,56	6,070,48	5,961,46	5,271,49
Time deposits	9,012,38	8,985,79	8,785,01	7,309,07
Borrowings from Reserve Bank	1,043,58	760,34	892,02	251,37
Cash and Balances with Reserve Bank	963,51	960,53	999,90	857,58
Cash	344,46	343,21	322,75	334,12
Balances with Reserve Bank	619,05	617,32	677,15	523,46
Investments :				
Government securities	3,499,67	3,430,62	3,391,77	2,911,72
Bank credit	11,670,60	11,463,65	11,417,55	8,995,81
Loans, cash credits and overdrafts	8,953,47	8,773,10	8,838,42	7,280,56
Inland bills	2,238,98	2,210,57	2,079,69	1,392,66
Foreign bills	47,815	47,998	49,944	322,59
Cash—deposit ratio	6.35	6.38	6.78	6.82
Investment—deposit ratio	23.07	22.79	23.0	23.14
Credit—deposit ratio	76.92	76.14	77.43	71.51

Source : Reserve Bank of India.

Money Supply with the Public (Rs. crores)

Weed ended	1975 June 27	1976 May 28	1976 June 4	1976 June 11	1976 June 18	1976 June 25
A. Money supply with the public	12,187	13,420	13,550	13,666	13,631	13,602
Currency with the public	6,707	7,211	7,365	7,502	7,436	7,295
Other deposits with the Reserve Bank	65	46	53	49	40	50
Bank money	5,415	6,163	6,132	6,115	6,155	6,257
B. Factors affecting money supply (1 + 2 + 3 + 4 — 5)						
1. Net bank credit to government sector (a + b)	10,506	10,759	10,898	10,945	10,806	10,814
(a) Reserve Bank's net credit to government sector	7,515	7,244	7,390	7,420	7,251	7,256
(*b*) Other banks' credit to government sector	2,991	3,515	3,508	3,525	3,555	3,558
2. Bank credit to commercial sector (a + b)	11,277	13,691	13,736	13,820	13,878	13,875
(*a*) Reserve Bank's credit to commercial sector	625	712	714	729	739	740
(*b*) Other bank's credit to commercial sector	10,652	12,979	13,022	13,091	13,139	13,135
3. Net foreign exchange assets of banking sector	310	1,077	1,094	1,156	1,211	1,279
4. Government's net currency liabilities to the public	554	554	556	556	554	551
5. Non-monetary liabilities of banking sector (a + b + c)	10,460	12,661	12,734	12,811	12,818	12,917
(*a*) Time deposits with banks	7,682	9,199	9,253	9,335	9,399	9,461
(*b*) Net non-monetary liabilities of RBI	1,957	2,351	2,380	2,396	2,413	2,449
(*c*) Residual	821	1,111	1,101	1,080	1,006	1,007
C. Aggregate monetary resources [A + B5 (a)]	19,869	22,619	22,803	23,001	23,030	23,063

Source: Reserve Bank of India.

Consumer Price Index Numbers for Industrial Workers

(1960 = 100)

Centre	1965-66	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1975 Mar.	1975 Oct.	1975 Nov.	1975 Dec.	1976 Jan.	1976 Feb.	1976 Mar.
All-India	—	177	186	192	207	250	317	313	321	316	315	306	298	290	286
Ahmedabad	130	169	176	181	198	245	305	293	304	293	295	289	281	273	258
Alwaye	145	197	198	202	215	267	346	358	378	349	356	346	333	318	322
Asansol	140	178	189	194	206	245	316	317	319	323	225	315	310	304	302
Bangalore	144	183	186	194	212	265	318	332	336	337	339	332	322	312	304
Bhavnagar	132	178	186	194	217	273	327	315	333	310	318	312	302	294	290
Bombay	130	175	182	190	203	233	289	300	301	305	303	296	292	288	286
Calcutta	131	172	182	187	197	228	288	287	275	301	304	287	277	271	276
Coimbatore	132	154	163	177	189	218	309	319	335	324	314	302	299	293	289
Delhi	136	185	199	211	222	265	337	333	335	336	334	323	325	325	324
Digboi	138	180	189	188	198	234	310	317	314	301	310	305	302	302	303
Gwalior	139	184	191	197	214	271	348	324	343	328	327	321	305	298	293
Howrah	137	176	186	191	206	239	298	290	289	298	304	292	281	276	277
Hyderabad	140	185	189	195	211	251	304	316	317	320	329	324	308	294	289
Jamshedpur	136	170	183	187	202	249	313	293	297	299	298	289	279	277	275
Madras	134	160	170	182	203	229	301	314	323	320	322	304	286	280	272
Madurai	128	162	183	192	206	236	334	333	356	339	313	303	301	295	290
Monghy	151	188	205	204	225	292	363	325	333	341	326	310	311	303	299
Mundakayam	138	191	197	199	210	263	337	346	366	339	344	330	327	311	311
Nagpur	138	176	187	192	203	256	314	326	332	337	339	329	304	286	277
Saharanpur	141	181	186	198	213	253	338	313	341	308	340	306	304	301	293
Sholapur	128	176	185	198	216	277	325	342	345	356	349	338	324	301	291

Source : Labour Bureau, Government of India.

Consumer Price Index Numbers for Urban Non-manual Employees

(1960 = 100)

Centre	1965-68	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1974 Dec.	1975 July	1975 Aug.	1975 Sept.	1975 Oct.	1975 Nov.	1975 Dec.
All-India	**132**	**167**	**174**	**180**	**192**	**221**	**270**	**282**	**280**	**280**	**280**	**280**	**281**	**275**
Bombay	132	162	168	172	183	204	241	248	248	247	246	247	250	246
Delhi-New Delhi	131	168	174	180	190	217	262	268	275	279	277	276	275	272
Calcutta	126	162	170	174	180	204	238	244	244	245	244	246	248	244
Madras	133	161	175	188	204	231	291	313	312	312	312	313	315	307
Hyderabad-Secunderabad	133	167	174	180	195	223	270	285	287	284	283	286	289	285
Bangalore	133	164	172	180	194	228	272	282	283	282	284	286	287	287
Lucknow	132	161	166	174	185	215	265	274	275	274	275	275	274	269
Ahmedabad	131	168	171	173	188	222	271	280	278	278	273	273	274	266
Jaipur	133	176	183	188	205	244	308	322	311	316	317	315	313	310
Patna	139	180	191	190	199	229	286	299	286	287	287	288	288	284
Srinagar	134	174	184	191	200	215	262	275	279	284	288	288	283	283
Trivandrum	131	172	178	184	198	231	280	289	297	293	292	294	300	304
Cuttack-Bhubaneswar	142	169	176	184	196	221	266	278	274	273	274	275	276	267
Bhopal	133	172	180	188	204	238	295	307	306	303	301	298	298	297
Chandigarh	129	171	178	183	194	217	265	277	276	277	281	280	280	280
Shillong	123	164	166	175	183	208	257	267	272	278	289	282	279	274

Source : Central Statistical Organisation.