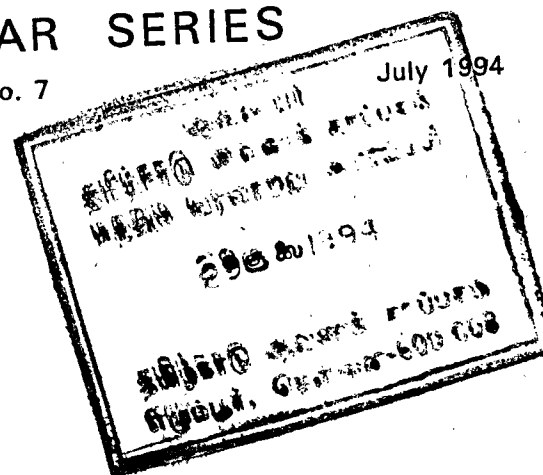


BULLETIN

MADRAS DEVELOPMENT
SEMINAR SERIES

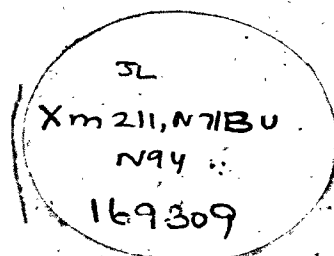
Vol. XXIV No. 7

July 1994



Development Prospects of Fisheries Sector in
India-With Special Emphasis on
Marine Products Exports

A note on Subsidies and their Pros and Cons



performance and the financial crunch and the prioritisation of public sector projects following from several causes are noted. The next section dealing with foreign trade begins with the export performance during 1993-94 and the consequent decline in the trade deficit. The good performance of ground nut extraction exports, the remarkable agricultural export growth during the year and the ambitious target fixed for 1996-97 are passed in review. The good export performers, textiles, spices, synthetic rayons are noted. In loans and aid the World Bank's demand on NTPC, the ADB aid for prawn seeds and the \$7 billion planned aid for the plan period are passed in review. So is the Rs.1.5 crores UK grant for small town development. In the Human Resources Development field, education starts with noting the extension of operation black board to upper primary schools (classes VI to VIII), the development of Tamil Nadu Agricultural University with the help of the World Bank loan and the guidelines issued by the All India Council for Technical Education for private professional colleges in which there is a blanket ban imposed on capitation fees. Under the health section the rapid progress being made by the family planning scheme, the concern over the high infant mortality rate in Tamil Nadu and the proposal for an independent panel for family planning are noted. Under labour the means of increasing jobs in rural areas, the increase in the number of jobless youth reaching 94 million in 2002 and pit falls of employment schemes are referred to. The decline in employment growth in 1991-92 for the first time in Tamil Nadu and the decline in the loss of man days in Tamil Nadu are noted. In the international economy section, the main developments in the world economy reported by IMF particularly with regard to the third world and the US's concern over the effect of WTO on its sovereignty, the reduction in aid by OECD countries to those in need are noted. The effect of GATT on agricultural trade is reviewed. ILOs report on the world's miners and their worsening situation and its report on means of equipping itself for suiting

the needs of ongoing globalisation involving making effective its standard setting process and function are briefly referred to. The Preferential Trading Arrangement among the South Asian Association for Regional Cooperation (SAARC) which becomes operational as of January 1, 1996 is noted. Under other items the Institute's involvement in the monthly panel discussion of the India International Centre which concentrates in May on agricultural policy and the scientists award made for the first time by the Tamil Nadu State Council for Science and Technology are passed in review. There is also a brief note on the X Finance Commission's visit to the state and its discussions with the government and other related persons.

State

Power

The power scenario in the State of Tamil Nadu records the marginalisation of McNally Bharat where its Indian private promoter the Jayamkondam Lignite Corporation set up in December 1993 to generate 1500MW and 11 million tonnes of lignite originally estimated at Rs.4,000 crores and because of the delay updated to Rs.7000 crores has had some important changes. The project has been transformed from a joint sector with TIDCO holding 26 per cent into an associate sector project where TIDCO's share is scaled down to 11 per cent. There are four German companies participating in the project holding a share of 40 per cent. There have been managerial changes despite which the company reports going ahead with the project with the prospect of signing a Power Purchase Agreement with TNEB by July this year. Another important development is the government's call to attain the objective of surplus power for which additional projects to provide 6000 MW is planned. In this, co-generation in sugar industry jointly

organised by the Tamil Nadu Department of Sugar and Union Ministry of Non-Conventional Energy and Tamil Nadu Energy Development Agency figures prominently. This involves the expansion of North Madras Thermal Project (1500MW), the Jayamkondam Project referred to above (1500 MW), the Tuticorin Project (500MW), the combined Turbine Plant at Pillaipermanallur (300 MW) and the atomic power plant proposed for Koodangulam (2000 MW) under the co-generation scheme. The sugar industry not only meets its own power requirements but contributes substantially to the State's grid. The bagasse production by the end of the plan is targetted at 44.3 per million tonnes capable of generating 7000MW.

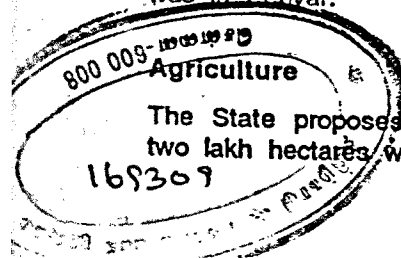
The North Madras Project referred to above has invited the attention of the Aditya Birla group, Indo-gulf Fertilisers and Chemicals Corporation, which is one of the group companies has bid for the Rs.3000 crores thermal project. With the downgrading of McNally Bharat, the Birlas are likely to be the premier investor in the State. There is a problem of availability of coal, of which the Union Ministry states that they cannot supply coal through CIL, while TNEB has not accepted the captive mine's offer on the ground of its marginal characteristics. This controversy should be resolved by giving the private sector parties the necessary leniency. The continuing over-drawal of power by Andhra Pradesh is placing TNEB and the state in a very difficult situation. The State has disconnected itself from the regional grid which is to be regretted, as all southern States will be facing difficulty, being unable to meet their growing demand shortages, the Andhra Pradesh Board should be disciplined and made to conform with the agreed drawings. Another problem faced by TNEB is that some 5 lakh consumers are not getting their meters read by the board assessors regularly, that is once in two months. This is really resented by the LT consumers and the delay which ranges

from 4 months to two years also disorganises the resource position of the board. The worst hit areas are Cuddalore, Tirupur, Dharmapuri, Periyar, and Tiruvannamalai districts circles. While the overall power situation is not unsatisfactory, the board considering how to ensure that the low tension power consumers including small scale units, shops and business establishments could be made to desist from the over-drawal of the power over their sanctioned load. While HT consumers can be and are controlled in overdrawal, there is not a similar means for controlling LT consumers. In the state the major industries are demanding the imposition of power cut so that the available generation could be used to ensure supplies of uninterrupted and quality power. Does this mean that the power situation in the state is deteriorating which would be against the early finding. The frequent power cuts are causing serious production losses and resulting in poor quality of finished goods. The interruption range from 30 minutes to more than three hours and the number of interruptions per month vary from 50-70 in the southern districts. It is pointed out that in the present situation when states are competing for power investment, the sudden and unprecedented power cuts not only hampers the growth of industry but also affects the flow of investment into the state. The time has come to make power generation a profitable venture which would send a clear signal to investors. Tamil Nadu Electricity Board on its side is planning to embark on a massive scheme to cut down transmission and distribution losses which is now of the order of 17 per cent of the total generation. The project envisages an in-depth study of the transmission and distribution net work to identify the factors leading to the loss in power. The study is to be taken up in a phased manner taking one distribution circle at a time. This study should also cover the need to conserve energy at the three thermal power stations in the state, while the problem of loss of power through various forms of thieving also needs urgent attention.

The delay in financing of bids for the restructuring and renewing of the over stretched units II to VIII of the thermal station I of Neyveli is a matter of concern as this delay could cause serious damage with the lives of the NLC staff and disrupt power supply to this power starved state. The units with the generation capacity of 450 MW have logged more than Rs. 1.4 lakh which is Rs.10,000 to Rs.20,000 beyond their stipulated time. The Union Ministry of Petroleum and Natural Gas as part of its policy to involve the private sector is considering setting up the Southern Gas Grid with the help of Oman oil Ltd. The use of the gas by the state industrial corporations of the southern states are being consulted on this gas pipe line which will run from the western off shore to the southern region. For the Oman Oil Company involvement in the construction of the Southern Gas grid is the entry point for its major role in the Indian production scene.

Water

The Chief Minister announced during the election campaign at the end of May that the Krishna Water Project for bringing drinking water to Madras city would be implemented by the end of the year. The work on the project was reported to be ahead of the schedule, 90 per cent of the work in the city and 75 per cent of the total work under the project having been completed. If this happens, the city would get 12000 million cubic meters of drinking water additionally every year. Five reservoirs in the state have received substantial inflows of water in April which was rather unusual. The reservoirs were in different parts of the state, the highest inflow was in the Tamparpakkam basin, the next best was in Periyar.



Cauvery delta of Thanjavur, Nagapattinam Quaide-Millet, Tiruchi, Pudukottai and South Arcot districts. If this target is attained it will be above the 1.474 hectares cultivated last year. The kuruval crop is being raised with the short term varieties ADT 36, ADT 37, IR 15 and TKM 9. The department also reports that the area under navara paddy has doubled because of the availability of water in the irrigation tanks and wells. The coverage this year of 5.8 lakh hectares is almost a doubling of the normal. With this increase the 1993-94 coverage is around 23.5 lakh hectares, with the excellent crop condition in the composite north Arcot, South Arcot, Chingleput MGR districts. The 8 year long National Water Management project (NWMP) in the State has increased to 10 schemes with the inclusion of the Rs.1.23 crores Manjalar Irrigation schemes in the Dindigul Anna district. This scheme which is being approved by the World Bank has however postponed to a later time other parallel schemes of Tirukoilur and Pilavakkara. The NWMP project is aimed to end the last of March 1995 and will there after be merged with WRCP.

Industry

The Tamil Nadu Fisheries Development Corporation has identified 50 hectare site along the coastal belt at Pudukalappakam of Mahabalipuram for developing a prawn park. The site is being surveyed by a technical team from the National Institute of Oceanography and on the basis of the project profile developed by the team, it is planned to float tenders for prospective partners. One of the important developments is the fast growth of Sundaram Fastners which expects a 40 per cent increase during the current year, building on its good performance of last year. It reports that its investment plans for the current year is Rs.13 crores which would add to the Fastner's group of projects and devote some of them entirely to exports. Another good performer is Tamil Nadu Newspaper

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and Prints (TNPI) which has been able to function with zero inventory as on March 31, 1994. This was a small 62 tonnes which is about 1/3rd of a day's production. This is good particularly because the production level keeps on increasing as it increased by 11 per cent last year. The Garments exports from Tirupur and Madras have crossed Rs.1000 crores in the last quarter of 1994. From the Madras belt exports have recorded Rs.505.60 crores with similar records in Tirupur. Salem reports two developments. First, the SAGO industry in the district has set up an industry affluent treatment plant for all the 73 SAGO units in the district. Its equity base is 3.75 lakhs. The plant is to be run with the advice of the Tamil Nadu Pollution Control Board in order to offset the effluents from the SAGO units. The other project from the district is with regard to the Salem Textiles which has finalised two projects involving Rs.90 crores of investment. This also involves an increase in the authorised share capital from Rs.7 crores to Rs.15 crores. The company is a 100 per cent export oriented unit which will manufacture textile yarn while its second unit assisted by ICICI will be similarly equipped with 2160 spindles. Salem thus is emerging as an important export centre in the State. The public issue of Madras Refineries has created history in receipt of 18 lakh applications which is an over subscription of 40 times. Another interesting development is that the Tamil Nadu telecommunication after two poor year's performance records a good year in 1993-94 when its gross profits after interest is Rs.3.3 crores. This was due to improved supply of copper and on this basis it plans to extend its future programme.

The ministry of Surface Transport has approved SPICs Rs.50 crores LPG handling project at Tuticorin. This is the first private sector LPG handling project and it has invited the increasing interest of the corporate sector in the country's 11 major ports.

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Proposed Plan growth

Concerned with the delay in percolation of the economic reform process down to the state, CII has outlined a 11 point growth plan for the state. It sees the state as been the focus for regional trade development between Singapore, Malaysia, Sri Lanka and Tamil Nadu. Series of suggestions have been made for the promotion of regional cooperation and the setting up of a chief secretaries committee of the five southern states is suggested to promote both trade and industry in the states. The 11 point plan include the establishment of a joint committee to frame a strategy and plan for Tamil Nadu, a task force to focus on agro based industry, a special initiative to upgrade cities and towns, upgrading of training institutions to improve employment, initiatives to improve social infrastructure, the ensuring of policy stability to avoid uncertainty and insecurity in investment, provision of a single window approach for investment and the reorganisation and corporatisation of state electricity board.

National

Inflation

The inflation rate at April 30 stood at 10.77 per cent as against 5.98 per cent at the end of April 1993. The official whole sale price index for all commodities during the week ended April 30 rose to 261.9 mainly due to the rise in food products (1.2 per cent) as well as raw silk, cotton seed, coir fibre, fodder, bran, gur and solvent extracted ground nut oil. There is another feature which we are now getting used to and that is that the final index shows a rise of near three points from 254.2 of the provisional index to 257 in the final index which means that the annual inflation rate for the week based on the final index was 10.3 compared

with 9.1 based on the provisional estimate. A similar rise can be forecast when the final figures are in for April. One of the major factors for the speedy increase in the price level is the successive increase in administered prices which according to NCAER accounts for 1.35 per cent of the present level of the inflation. A second major cause is the massive fiscal deficit, revenue collections failing to reach the target and efforts to reduce government expenditure being unsuccessful. Temporary measures are being taken as in the case of sugar and edible oil imports to contain prices. They have not had a real impact on prices. Third, there is also the inflationary expectations as banks are flush with funds which are not being used for investment. With the industrial growth stagnating, the household share of investment is also stagnating. NCAER suggests a cut in interest rates but it is doubtful whether this will produce any effects. In fact it is pointed out that official mismanagement rather than any mismatch between supply and demand has been responsible for the 17 per cent rise in sugar prices over the past two months. The government kept up free sale the releases which depressed even as the current year's output was declining. Opening up sugar to be imported duty free. Under OGL did not negate the upward trend in prices. The confusion caused by the Food Ministry with regard to the import floated by FCI is adding to the problem. It looks as if inflation is here to stay for sometime.

Plan

The Planning Commission has begun a study to delineate the planning process in a free market economy in the post liberalisation era. It notes the main characteristics of the economy: (a) a dominant market, b) an expanding private sector, c) the public sector made more autonomous, d) trade with the rest of the world expanding and e) the focus of government in creating suitable environment for growth and

development. The Planning Commission document states that the volume of planning intervention had been more glaring where the state participated directly in production and used controls and flats to achieve the social goals. The Commission was relatively good and attained successful results when the state played a facilitating role. The free market is essential for evaluating efficiency and planning had a role in attaining socially desirable objections. It emphasises that planning is needed for creating social infrastructure for human development, for protecting ecology and improving the environment and protecting the weak and for achieving a certain degree of regional balance in growth. The important role of planning would be intervention for expanding the market and making it work more freely competitive and with accessibility to big and small.

Power

The power sector is opening up for private investment as part of government policy on freeing the public sector for investment by private, Indian companies and MNCs. The areas include civil aviation, road transport, telecommunications and energy. According to the latest data available the country has an overall short fall of 8-10 per cent in power availability with peaking shortages of 18-20 per cent. Hence the creation of more generating capacity is imperative even if the original 8th Plan estimate of an additional 48,000 MW cannot be reached. But the first scaling down to 30,537 MW which later has been further reduced to 20,000 MW is drastic though some believe that even this is optimistic. While the main hurdle has been the resources constraint, funds provided by institutions like the World Bank and ADB have lapsed owing to non utilisation by state governments hence the resort to the private sector for the setting up of power projects. This has raised the question of the level playing field particularly after the

power purchase agreement by SEBs with Euron of the US for the Dabhol project in Maharashtra and with the AES thrust power in Orissa. The criticism hinges on the concessions being given to foreign companies. The government has rejected these charges that the policy adversely affects the indigenous manufacturing capabilities of BHEL, the power ministry has issued two booklets defending its policies and stating that the indigenous manufacturing industry is well developed and can meet the large portion of the growing demand for equipment and accessories required by power industry. It is thus time to clarify and resolve these contentious issues on the policies of private sector participation in power as there seems to be no alternative to it. In this situation the case made by the Fifth report of the Parliament Standing Committee of energy for giving non conventional energy sources a real chance should be taken seriously. After all when the government is prepared to give foreign investment in conventional energy plants a return ranging between 24-34 per cent, there can be little objections to exploiting more fully non conventional energy on the grounds of high cost. In successive plans there has been a ritual reiteration of the commitment of the views to further develop thermal generation and enhance hydel generation which has not taken place due in part to inter-state disputes as well as questions of environmental protection but the resort to hydel and non conventional energy sources to generate power to meet the needs of a growing economy cannot be escaped. The committee notes with regret the fact that the allocations over the 7th and 8th Plans for non conventional energy programmes have been less than one per cent of the total funds for energy development. The committee points out that there is a vast potential of 20,000 MW for wind power, 17,000 MW for bio mass, 10,000 MW for mini micro hydel and 79,000 MW from ocean thermal sea way and tidal power and then there is a vast area of solar energy. The time has

come for us to make the so called non conventional energy, the Conventional energy within a limited time frame. We should move from the realm of scientific fantasy on non conventional energy and experiments to actual performance. The cost factor is quite subsidiary when compared to what the government has guaranteed the private sector as referred to earlier. But the non conventional energy is recommended not only because of the cost factor but also from the point of view of the coal reserves having finite gas reserves being very limited as is petroleum. There is no alternative to immediate and intense exploitation of non conventional energy. The government representatives in the three day Power India 1994 seminar state that the government will be burdened with the very heavy liability of \$100 billion due to the counter guarantees being provided for the five power projects with foreign investment. This liability will spread over 25-30 years for which power purchase agreement have been signed by SEBs. This works out to an annual liability of \$5-6 billion. If this is so the question of the terms on which foreign investment in power are invited should be reviewed.

The International Energy Institute states that the sugar industry in India can generate 3250 MW through co-generation. India as the largest producer of sugar at 11.5 million tonnes and sugarcane, crushing 125 million tonnes a year has a co-generation capacity of 12,000 million KWH. Installing higher pressure in the new sugar factories of 480 degree celsius boilers and condensing turbines, the electricity generation can be further increased.

Economy

It is well to begin this section which covers many facets with the effects of the reforms and the budget on the economy. The economic situation both in the short term and long term faces imbalances and uncertainties, inter alia low real income

growth, fiscal instability, large liquidity, reduced domestic savings and investment, poor advantage to employment and a combination of supply shortages both manipulated and resulting from speculation and the upward revision trend of administered prices. The only positive element in the economy today is the large foodgrain stored and large reserves of foreign exchange but even here it should be noted that these strong points have been attained through policy instruments that have strong inflationary bias. In reference to the liquidity of the economy it should be noted that in 1993-94 M₃ expanded by Rs.65,827 crores (17.9 per cent) compared to the previous year's increase of Rs.49,332 crores (15.5 per cent). In this liquidity the expansion in currency with the public was the major element (22.2 per cent compared to the previous year's 13.2 per cent). Deficit money growth was moderate at 16.9 per cent in 1993-94 against the previous year's 16 per cent. It will out pace GDP growth at current prices. The two - the sharp rise in liquidity and the accumulation of foreign exchange are related. The foreign exchange accruals resulting in monetary expansion is due to the foreign exchange accruals not being earned by exports as well as macro economic policies of the government and RBI. The excess liquidity caused by the foreign exchange reserves could have been avoided if they had been productively employed in investment. Instead of that, the government's plan for the private sector and foreign investors to revive investment has not been realised. Hence the only way out is for the injection of sizable investible funds into the public sector which will also counter the reduced fiscal transfers from the centre to the states. The various facets of financial sector reform such as moving from direct to indirect monetary controls have rendered monetary policies ineffective, so too the capital adequacy norms prematurely imposed on the banks have made them shy of lending to agriculture, rural industry and SSIs where they are most needed. This can be done if

the implementation of the capital adequacy norms is deferred by a few years.

Turning next to the planned programmes of disinvestment, the finance ministry's proposal to accelerate the programme of disinvesting government equity in public sector enterprises to the tune of Rs.4000 crores despite the luke warm response to the last round, in for this round the target was Rs.2500 crores which has been missed only by Rs.200 crores, alleged to be due to the delay in floating the tender. The decision to increase the disinvestment to Rs.4000 crores for the year is due to the need to raise additional resources to keep the budget deficit down to Rs.6000 crores. Further to the disinvestment of 7 public sector undertakings which has yielded Rs.2300 crores, there is also the need for a greater transparency in the process of disinvestment which the Rangarajan Committee proposal has ensured for making the process of sales more straight forward. Two important recent occurrences underlined the vagaries of financial management in the Indian public sector. A PAC report stresses the serious irregularities in the first two branches in 1992, the second occurrence is the dramatic withdrawal of the US \$1 billion Euro issue of the Videsh Sanchar Nigam Ltd after much initial work on it. The common threat in both is that the government has been short changed in the first case while in the second its earlier expectations of higher prices was belied. Dismanagement programmes should not follow a single procedure or a specific time frame. Its functioning and review should establish proper perspectives. Next the RBI's credit policy for the first six months of 1994-95 announced in mid May aims at a sharp reduction in the inflation rate by about 4 per cent and for this, increases the Cash Reserves Ratio from 14 to 15 per cent in three phases to moderate liquidity. RBI describes this as a needed monetary policy, it involves also a reduction in rupee export credit refinance by banks of Rs.900 crores and the dollar refinance by Rs.670 crores.

Making changes in the selective credit controls from mid May, RBI raises across the board the minimum margins against pulses, oil seeds and vegetable oils and cotton by 15 percentage points. For commodities where there was a stipulation on the level of credit ceilings, the reference period was brought forward by one year. The maximum term interest rate on non resident external rupee accounts was reduced one percentage point from the existing 11 percent. The Statutory Liquidity Ratio is reduced from 34.7 per cent to 33.75 per cent. The new credit policy has been welcomed. The question that is raised is that while its aim to reduce inflation was correct, should the additional availability of credit for essential commodities have also been so sharply reduced, should not inflation containment have relied more on industrial and economic growth. It is hoped that the credit policy and fiscal policy would work in harmony. It is hoped that the increase in CRR and the impounding of liquid resources of Rs.3700 crores will not adversely affect the cash flow to industry and trade.

Turning next to the Regional Rural Banks issue, despite the brave words of the budget the prime minister's decision and the finance ministry's indifference to rural financing seem to presage the decline of the regional rural bank system with about 14,000 branches employing about a lakh persons. The RRBs which were set up as a parallel financing institution to meet the credit needs of the rural poor has been an urgent need of the National Rural Bank of India recommended by the many committees to help restructuring the RRBs but nothing has been done on this and the RRBs are in great danger.

One other important development has been the new Telecom policy announced in mid May which removes the public monopoly of the basic telecom services. For the present, privatisation of the telecom area would be confined to licensing the 18 companies which have been passed for setting up extension of the net work in industrial and prosperous

rural areas like Haryana, Gujarat and Tirupur. The government has kept for itself the power to fix the tariff for basic services, with the private companies maintaining a balance in their coverage between rural and urban areas on the basis of the agreed tariff. The current practice of auctions routes to the highest bidder should not be pursued to avoid the services becoming unaffordable. The criteria for selecting companies for grant of licenses for radio paging systems and cellular mobile telephone systems has been established as part of the value added services allowed for private and foreign opinions. The announcing of the new telecom policy has been generally welcomed with a number of questions which will have to be clarified and examined. Doubts have been expressed as to whether the new telecommunication policy will be able to make telephone available to all by the year 1997 as of March 1994. They have 25 lakh applicants in the national waiting list. This means a million telephone will have to be installed annually. This seems impossible.

With regard to the Malhotra Committee report on insurance, the government announced that it would implement the recommendations in phases. The first phase would be to help insurance companies continue and enhance productivity and quality services. The structural changes in the sector would be taken up only after consulting the diverse components of society. The possibility of establishing an independent regulatory authority to supervise the insurance industry is under study.

The Standing Parliamentary Committee on urban and rural development notes that the rural schemes lack sufficient impact and suggest their close monitoring. The Comptroller and Auditor General has criticised the government for ineffective implementation of IRDP which has become largely a relief programme instead of raising the income level of the poorer rural families. Hence it calls for the effective monitoring of IRDP both at the centre and state level which is

now very ineffective. ILO is also critical of the implementation of IRDP. It points to one of the shortcomings namely the weak targeting of poor households which results in the ineligible non poor benefiting from the programme. It points out that the beneficiaries below the poverty line tend to cluster just below it with only a small proportion of them been the poorest of the poor. The department of waste land development has sought Rs.1165 crores for the 8th plan but for 1992-93 obtained only Rs.26.41 crores and for 1993-94 Rs.50 crores. As the average rate of assistance as the per hectare development of waste land is Rs.10,000 crores and the department aims at developing 936.60 lakh hectares, it is in urgent need of additional funds. Government also reports that 422 lakh families have so far been assisted under the IRDP with a total investment of Rs.18,728.3 crores, half the assistance has been extended to scheduled castes and scheduled tribes during 1993-94 and the coverage of women has steadily increased from 9.9 per cent in 1985-86 to 32 per cent in 1993-94. During the last three years 61.5 lakh families have been assisted with Rs.2459.25 crores. This major poverty alleviation programme which covers all blocks of the country has been successful in bringing some of the families above the poverty line by providing them with productive assets.

Next in relation to the reference made earlier of the bearish response in India's corporate Euro issues and the continued foreign institutional interest in Indian equity there is need for caution in regard to their assessment of India's corporate strategy because their main aim is to maximise their profits and their bearish response may be part of a deliberate strategy to discourage India's corporate entry into the international capital market, and at the same time to stimulate foreign investment in Indian scripts. These remarks also apply to the latest assessment of Merrill Lynch of India's economic performance both internal and international.

The liberalisation which is aimed at making official machinery and procedures more flexible has failed in the case of the arresting of sugar prices through imports. What was needed was the quick response to the rising sugar prices, using the large foreign currency assets that have been built up to pay for the imports. This balancing of the demand and supply of sugar in the country was not done and the government is involved in the needless controversy with a further rise in prices.

RBI predicts that the real GDP growth in 1993-94 will decline marginally to 3.8 per cent from 4 per cent for the previous year. Similarly national income at factor cost at 1980-81 prices will also decrease by 0.6 percentage points to 3.6 per cent. But the per capita NNP is estimated at Rs.2255 which is an increase of 1.8 per cent.

The extent of urban poverty is under study, the Planning Commission's data in 1987-88 showed that 20.10 per cent of urban people were below the poverty line. But the Lakdawala group set up by the Planning Commission to look into this matter came up with the conclusions that 40.12 per cent in 1987-88 were below the poverty line. A third estimate of the National Institute for Public Finance and Policy puts the percentage of urban poverty at 36.5 per cent. Differences between these figures arise from wrong estimations for instance in the case of Bihar, the Planning Commission found only 30 per cent to be the urban poverty while the Lakdawala group found it at 57.71 per cent. Similarly in Tamil Nadu the Planning Commission figure was 20.50 per cent while the Lakdawala expert group found it was 43.88 per cent. In West Bengal it was 20.70 per cent which had to be revised to 32.84 per cent, for Maharashtra the figures were 17.38 and 38.99 per cent respectively. For Madhya Pradesh they were 21.30 and 38.12 per cent and for Karnataka 24.20 per cent and 49.06 per cent and for Kerala 19.30 per cent and 43.36 per cent. The scope for these discrepancies arise from the various criteria

adopted for the measurement of urban poverty. In this connection the Lakdawala study and recommendation projecting the minimum needs and effective consumption demand at a monthly per capita expenditure of Rs.56.64 for urban area at 1973-74 prices is used. This would provide for 2100 calories per day in urban areas.

Finance Minister's Conference

At the one day meeting of the conference state ministers of finance presided over by the union minister of finance at the end of the month, the question of introducing VAT at the national level and at the state level to replace excise and sales tax was discussed. There were very clear and strong views put forward by the union finance minister in favour of VAT and opposed by almost all the state finance ministers on the grounds that at the state level the main resources available to them is the sales tax. The centre has modified the MODVAT scheme abolishing the restricted proforma credit scheme for tobacco, fibre, yarn and fabrics. This is accomplished by a number of changes in MODVAT to simplify it, as for example dispensing with the requirement of verification by the range superintendent. The one day conference finally decided to set up a 10 member committee of state finance ministers to examine the implications of VAT on states finances. In the report which the National Institute of Public Finance and Policy, requested by the Ministry of Finance, the NIPFP estimated that the introduction of VAT would involve a loss to the states of Rs.1000 crores per annum which in its opinion in the initial years will have to be compensated by the centre. It also recommends the constitution of a VAT Council of states for facilitating consultation and also that the National Development Council take up this question of creating the VAT Council and decide on the mode of its functioning. Thus there is the overwhelming view among the states that great caution should be exercised in implementing VAT as far as the states are

concerned. This is correct as long as the states are so dependent on the sales tax revenues. Another issue which was discussed in the conference was the issue of the levy of consignment tax, on which the finance minister stated bluntly his opposition because it would break up the common market which India represents and would lead to war among states. However, most states disagreed with him and referred to the decade old proposal for the levy of consignment tax to be implemented speedily through central legislation. The constitutional amendment for the introduction of consignment tax was adopted in 1982. The tax is proposed to be levied on all inter-state consignment of goods. The resources starved states urgently want the implementation of the consignment tax so this is also now held up because of the opposition of the finance minister.

On another issue the central health education bureau states that India suffers enormous economic loss by way of environmental degradation and the treatment of diseases because of tobacco. While the country earns Rs.1551.5 crores by way of excise on it, it spends Rs.2236.5 crores on treatment of disease caused by tobacco. In addition there is loss in productivity due to ill health, premature deaths, and low efficiency which comes to another Rs.3000 crores per year. It recommends for reducing and banning the use of tobacco.

Agriculture

The 1994-95 budget was a pro industry budget with innumerable tax concessions for the industrial sector. The agricultural sector contributes 31 per cent of GDP (down from 56 per cent in 1950-51), and employs two thirds of the population (which has increased from 298 million in 1950-51 to 627 million in 1990-91). A full development of the agricultural base is a sine qua non for industrial development. The outlay for agriculture for 1994-95 is Rs.2005 crores, out of the total budget of

Rs.1,51,698 crores, that is 1.32 per cent. The level of agricultural investment proposed for 1994-95 is Rs.2005 crores against Rs.1918 crores in 1993-94 which is a decline in real terms. The rate of investment in agriculture has thus declined. The gross investment in real terms declined from Rs.4636 crores in 1980-81 to Rs.4580 crores in 1991-92. It is agreed that government investment in agricultural infrastructure needs to be increased by over 50 per cent as the private sector along with foreign investment will mainly be in the export sector like agro processing rather than in basic infrastructure. To achieve faster growth in agriculture there is need for larger investment in it by government and the private sector which will reverse the poor investment being made in agriculture today.

In the agricultural area there are somewhat contradictory forces at work. The wheat procurement crossed 5 million tonnes in May, which means that the total foodgrain will be amounting to 27 million tonnes in July. This problem of plenty faced by the government with the buffer stock of 22 million (7 million above the minimum norm) means that it will go in for open market sales. The current capacity of FCI is only 23.62 million tonnes calling for additional capacity to be built. On the other hand the likely foodgrain production of 179.10 million tonnes during 1993-94 is reported by the government to be far below the desirable level. The expected foodgrain production this year is 1 million tonnes short of last year, 9 million tonnes short of the Planning Commission target mainly, all due to the lower production of coarse grains. Hence there is also discussion about exporting wheat to relieve the situation of plenty in the country. But an inter-ministerial working group of the Planning Commission states that the current foodgrain production level exceeds the normative requirement of the population by about 10 per cent. Therefore the group states that the present production of around 180 million tonnes of cereals,

millets and pulses is adequate to feed the estimated population of one billion in 2000 AD. The group refers to the poor not being able to obtain the needed foodgrains because of the lack of resources, but it concludes that an increase in foodgrain production would require a strong market pull which can be provided by a mix of aggressive exports and public stock holding. It states that the average energy requirement for the population during the remainder of this century would be 419 grams of foodgrains per capita day at the physiological level of 493 gram per capita day at production level. Assuming no change in export/import of 15 per cent food wastages etc. the requirement at the production level would therefore be 162 million tonnes for a population of 900 million (1994) and 180 million for one billion at the end of the century. These conclusions should be examined to ensure that they do not contain any miscalculation which could be serious for the people's well being.

In the area of dairy production according to the Rajasthan Agriculture University, India will join the league of top producers milk and milk products by 2000. India's annual milk production has increased from 20 million tonnes in 1970 to 60 million tonnes and will move to 90 million tonnes soon.

In the poultry area, there has been a slump in the last two years, but joint ventures and the modernisation and expansion programme has resulted in increase in the production of the poultry products. These have been experienced in 1992 and in parts of 1993 high production costs, and comparatively low selling prices, but this stage has passed and the small scale units are increasing their production fast. Five big Indian poultry units have already gone in for foreign tie ups with US and UK and French firms. Of the five Indian companies, two Venkateswara and Agri Tech have emerged as major exporters of poultry products. The country has 500 hatcheries of which 200 are in public sector, the layer birds stock

is 1.4 million which would grow to 2.5 million in 1997 and the broiler breeding stock to around 4.3 million. The poultry industry is expanding fast to meet growing demand of the country.

With regard to agricultural research April recorded 36 reports, their distribution comprises cereals 11, vegetables 10, fruits 10 and animal husbandry 8. This is a good record.

On plantation crops the coffee and tea scene in April report good progress. Coffee exports have expanded and the shipping lines have profited from it. Coffee Board reports that it has worked out a plan to compete with private trade by making its payments promptly and not in a delayed manner as at present. The Board's sub committee which was undertaking the Nestle India allocation states that it will make exparte decision on the basis of available material if the Company does not appear on May 31 or the present hearing. With regard to rubber, the World Bank funding scheme is helping to increase Indian rubber output by more than 60 per cent to 700,000 tonnes by the turn of the century. This would assure self sufficiency for India. The rubber board states that it will attain its target of extending rubber growth to non traditional areas across the country. The five year \$4.46 billion World Bank project which began towards the end of 1993 is doing very well.

Industry

At last industrial production is registering a positive trend. In January 1994, its growth was 7.3 per cent over January 1993. The industrial production indices for the month were 245.9 compared to 229.1 in January 1993. Mining, manufacturing, electricity and general industry registered a growth of 4.6 per cent, 8.1 per cent, 5.9 per cent and 7.3 per cent. This makes the first 10 months general industrial production grow at 3.1 per cent (from 213.4 to 220.1). According to the

CSO Quick estimates for January-April 1994 showed an overall growth of 2.4 per cent over the previous year. The mining sector by 2.5 per cent, manufacturing by -1.1 per cent which was made up by the January record referred to earlier.

Another positive performance is in the area of crude production. ONGC itself records less crude oil production in the past 10 years but for the country there has been a turn around with oil output going up by 0.2 per cent during 1993-94. Thus after three years the declining crude oil production trend has been arrested due to the high output of OIL. The crude oil output during 1993-94 was 27.02 million tonnes against the 26.95 million tonnes in the previous year. The special council for petroleum and natural gas forecast that multinationals are likely to ignore the Indian oil industry despite the government's serious steps to attract foreign participation. It forecasts that the CIS will emerge as the new Middle East for the international oil industry. The major oil MNCs are being attracted by other countries like China, Vietnam, Indonesia, Brunei, Malaysia, Papua and New Guinea. It suggests that major steps should be taken to meet the \$150 billion investment needed by the industry, tightening up the loose and the indifferent implementation of oil policy. Modifying the continuing decline in the oil the priority is for economy, the development of an over all policy in demand management and a coherent oil orientation transportation policy and to step up the use of gas production which will go up to 94 million cubic metres per day by the end of the 8th plan. 10 per cent of this is now being flared.

The poor FDIs flow into the country is being blamed on the states and the regulatory mechanism. At present the net FDI inflow has fallen drastically short of the official projection, with the implementation showing a very bleak scene. Overall of the 2500 proposals with foreign equity components approved in the last three years, only 178 have so far under taken any construction

activity with the intention of setting up units. This lethargic phase on investment realisation is being blamed on cumbersome state regulations, delay in environmental clearances from State Pollution Control Board, the land ceiling authorities and above all the functioning of the system for the state level clearance of land, water and power supply. This is not wholly true but the grain of truth in it is sufficient to hold back FDIs and this should be corrected. A similar situation applies with regard to the funding of public sector projects where the government has decided to continue funding only those projects that have used 50 per cent of their allocated funds and completed half of the commissioning schedule. This means that more than half of the 321 current public sector projects will either be axed or put on hold. The affected projects are in the core sector including energy, transport, and telecommunication and are slated to be completed by the 8th Plan. Plan funding will be thoroughly scrutinised to fill financing priority projects from the current financial year. In a related development the CAGs latest report to Parliament highlights the short coming of PSUs marketing volumes, under payment to employees, unproductivity management, loss of revenue, diverting of funds through the portfolio management scheme and infructuous expenditure. The report notes that Hindustan Aeronautics lost Rs.14 lakhs in interest due to the delayed realisation of Rs.318.47 lakhs, similarly HMT failed to claim duty draw back in time and so lost Rs.20 lakhs, Rastriya Chemicals and Fertilisers faces a shortage of stocks worth Rs.84 lakhs due to failure to follow up the prescribed procedures, ITDC lost \$1 lakh due to delay in decision on an offer by and foreign company, SAIL incurred a loss of Rs.22 lakhs on despatch on CR coils. In regard to the deployment of funds by PSUs in securities the report states that the 11 PSUs had invested substantial funds in portfolio management schemes in banks, in violation of guidelines. Kudremukh Iron Ore Company invested Rs.55 crores in the Andhra

Bank Financial Services of which Rs.45 crores was invested after the scam came to light and the Company was able to recover only Rs. One crore. Semi conductor complex and Oil India have not received back Rs.29.80 crores on maturity, GAIL which invested Rs.50 crores with the Indian Bank and Rs.147 crores with a foreign bank in violation of the guidelines lost Rs.46 lakhs, NALCO invested Rs.2446.33 crores between January 1989 to July 1992 in violation of instructions, and also renewed its short term deposit of Rs.125 crores after the submission of the Janakiraman committee report, with Rs.105 crores still outstanding. This is an extremely disturbing and sloppy record. The government has finally decided to cut its losses in the public sector projects because of the resource crunch. The fresh excise duty concessions announced by the Finance Minister when moving the finance bill in early May showed special consideration to SSIs in various stages of growth. The observations of the finance minister showed an understanding of the special problems faced by the SSIs. The excise concessions provides an occasion to review the varying state of SSIs as well for considering the scope for imparting more homogeneity to them. The case for exemption which is made without the aid of power merits favourable consideration. The case for umbrellas and corrugated boxes and cartoons involving outside jobs was well presented. The finance minister's decision to enlarge the list of imported life saving medical instruments which are exempted from the payment of customs duty was sound. The private sector on its side has to respond to the tax holiday declared by the government by setting up such facilities particularly those not using power which would attract capital inflow into this area.

Foreign Trade

The few aspects of the foreign trade scene in May begins with the surplus in current account. That is likely for the year 1993-94 which will be the first time in a decade. In its

pre budget economic survey the government forecasts a current account deficit of \$1 billion in 1993-94 with increased flow of private transfers (dollar earning and tourist), official grants and interest earnings from short term investment abroad. The situation seems to be reversed. The Director General of Commercial Intelligence estimated the trade deficit of \$1 billion which will be marginally lower in the final estimates of RBI, private transfers which are remittances from the Indians abroad were \$2.2 billion in 1992-93 and is likely to go up by \$1 billion in 1993-94, earnings from tourists are also rising and all these could be higher than the debt repayment of \$3.7 billion made in 1993-94 of the total foreign investment of \$4 billion in 1993-94. FII accounted for \$1.6 billion, global depository receipts for about \$1.5 billion and direct foreign investment \$600 million. This is the basis for the forecast of a small surplus in current account emerging when the accounts are closed for 1993-94. For March 1994 imports record a 21 per cent increase over March 1993 recording a spurt in imports for 1993-94 to 6.84 per cent and the annual trade deficit to \$1.04 billion, imports during the first 11 months of 1993-94 were estimated at \$20.33 billion a growth of 1.95 per cent over the previous year but imports during March rose by 61 per cent to \$2.87 billion raising the total imports for the year to \$23.21 billion. The trade deficit during April/February 1993-94 was estimated at only \$509 million compared to \$3.5 billion in the same period of the previous year. By the end of March 1994 the annual trade deficit near doubled to \$1.04 billion compared to \$5.3 billion of the previous year. A positive feature is that non oil imports during the last quarter seems to rise sharply which should be reflected in improved industrial performance. One of the striking facts in the foreign trade areas is that during the four year period 1988-89 to 1992-93 agriculture exports registered a growth of 181 per cent as compared to the growth of 161 per cent, non agricultural exports within this rather remarkable development exports of

Basumathi rice, spices, milled oil and horticulture products recorded a growth of 44.42 per cent during the 10 months April 1993 to January 1994, agricultural products worth Rs.8657.22 crores were exported during the period which was Rs.3051.70 crores more than the corresponding period last year. Basumathi rice recorded a significant export increase of 4.55 lakh tonnes worth Rs.877.45 crores, spices earned Rs.459.80 crores, cashew Rs.840.74 crores, oil seeds accounted for Rs.1802 crores, castor oil Rs.201.96 crores, horticultural products in the form of fresh fruits and vegetables and processed foods earned Rs.450 crores. In light of this record the Rs.35 billion export target established by the government for 1996-97 involving an annual growth of 23 per cent is attainable. This was also confirmed by the trading houses which were consulted on the subject. At the individual level, exports of spices during 1993-94 recorded an all time high of 38 per cent growth and 32 per cent in rupee terms and 22 per cent in dollar terms, total exports during 1993-94 are estimated at 1,72,532 tonnes valued at Rs.540.12 crores. Another item which has made a record is ground nut extraction which for 1993-94 is expected to touch 4.25 lakh tonnes against the target of 3.5 lakh tonnes, earning a record Rs.157 crores. Exports of marine products also increased from Rs.714.92 crores in April/September 1992 to Rs.965.94 crores during the corresponding period in 1993 showing an increase of 19.6 per cent in quantity and 35.6 per cent in value. The other good performer in 1993-94 was textiles which earned Rs.20,000 crores as against Rs.885.8 crores in 1989-90, behind this is a rather remarkable expansion in production of cotton. The share of textiles items including handicrafts and carpets has declined from 29 per cent in April/January 1992-93 to 26 per cent for that period in 1993-94. In this the share of textiles alone has slipped from 25 per cent to 22 per cent. For the 11 months of the year 1993-94 India's textiles exports were \$7072 million and the government states that it is

taking further measures to export this item. Again exports of synthetic and rayon textiles during 1993-94 registered Rs.1843.71 crores which exceeded the target and recorded an increase of 29 per cent over the previous year.

It is reported that exports grew by over 20 per cent in dollar terms during the third year of the economic reform programme 1993-94 which brought down the trade deficit to \$1339 million. This is impressive viewed against the poor performance in the preceding two years though it does not equal to the performance in the 80s when exports grew by 24 per cent. The heavy inflow of foreign exchange, particularly dollars has resulted in a new problem of plenty and has forced the Reserve Bank to fix the informal cap of fresh inflows of foreign exchange. RBI has fixed at \$5 billion as informal ceiling of foreign exchange inflow for continuing open market intervention in 1994-95 which would also reduce excess money supply.

Loans and Aid

In April the World Bank refused to disburse loans worth \$1.731 million to the National Thermal Power Corporation following its inability to collect the receivables from power purchase equivalent to two months billing. This would seriously hamper the investment programme of NTPC and the ongoing power projects. IBRD has made a loan to meet shortages of prawn seeds for which 12 hatcheries are being set up which will produce 300 million seeds. On the other hand, the World Bank announced endorsement of India's micro economic reforms through making available \$7 billion as a three year loan, the loan will be divided on a 50:50 basis between the bank on commercial terms and IDA on concessional terms. The foreign aid field also includes a grant of pounds 323,774 (Rs.1.5 crores) to finance in part the integrated development of small and medium towns. Over the past seven years Britain had already provided

Rs.300 crores for the improvement of living conditions of slum dwellers in five cities of the country.

The World Bank has sanctioned a special grant of \$20 million to the Consultation Group on international agricultural research to overcome the current year's budget deficit of its farm research centres including ICRI SAT. The World Food Programme has also made a grant to strengthen the anti poverty programme.

Human Resources Development Education

On operation black board it is reported that it is being extended to the upper primary schools covering class VI to VIII during the eighth plan starting with the rural schools particularly those for girls and SC and ST. With the help of World Bank loan of Rs.35 crores the Tamil Nadu Agricultural University is strengthening its research and its faculties to help meet the demands of the bio diversity convention. Under this project the Tamil Nadu Agricultural University scientists will visit leading agricultural laboratories in other countries and also learn the elements for revamping the teaching programme. The government of India in accordance with the Supreme Court directive has issued the new guidelines for admissions to provide professional colleges under which all capitation fees have been abolished as from the coming academic year June 1994. These guidelines will not apply to universities, government colleges, IITs, IIMs and regional engineering colleges. Under the new system admissions will be on the basis of a common merit list prepared after the entrance examination. 50 per cent of the seats in the private professional colleges will be designated as "free seats" for which the fee would be the same as in government institutions, the remaining 50 per cent will be payment seats for which the fee would be much higher. The fee for both categories will be determined by a standing committee for

a minimum period of three years with strict instructions that no college would be allowed to charge anything extra under any name. The management quota is abolished. Reservation of seats for the weaker sections in accordance with the government rules will be continuing. A major change relates to minority institutions where 50 per cent of the admissions will be on the basis of a common merit list prepared by "competent authority" and the selected candidates will be distributed equally between free and payment seats in order of merit, the remaining 50 per cent will be filled by the management from among the candidates belonging to the minority community on the basis of merit. These guidelines which were worked out by the All India Council for Technical Education thus gives the Council an important role in regulating admissions in private professional colleges. Only a registered body approved by the AICTE is to be allowed to set up a college and the number of seats available for admissions will be determined by AICTE. No admissions is allowed in unapproved or unrecognised professional colleges from June 1994 and admissions to aided private colleges would be regulated by "a competent authority" which will soon be established. The Council is also appointing a standing committee comprising a Vice Chancellor, two economists or cost accountant and three officers of the state in each state for fixing the fee which will be based on the estimated expenditure of a college for its efficient functioning. These guidelines are important and the extent to which they are carried out will be a mark of the new phase in the development of technical education in the country. Today the AICTE has been almost totally ineffective in controlling the setting up of private professional colleges.

Health

On the side of health, the continued high mortality (65 per cent) of infants below one month in Tamil Nadu is worrying the health authorities. The infant mortality rate will fall

only when there is considerable reduction in neo natal deaths. Among the neo nats, the fall in mortality rate in the pre natal group (still births and up to 7 days of birth) is still lower causing further concern to those involved in health care. The India population project V reports that 35.6 per cent of all deaths were due to pre maturity and low birth weight, 31.8 due to acute respiratory infection and 14.4 per cent due to diarrhoea. This means that while the state has a good record in the decline in IMR from 129 per 1000 live birth in 1971 to 57 per 1000 in 1991, this decline is tending to level off. On a correlation graph between birth rates and IMR showed linearity upto 1988-89 but not there after. It is in this situation that the Tamil Nadu government's action plan for population education which aims to achieve the IMR of 30 per 1000 and the birth rate of 15 per 1000 by 2000 becomes important. Pre perinatal mortality could be tackled effectively by focusing attention and action on maternal mal nutrition birth, asphyxia and promote care of the new born. The Government of India reports that there has been a 16.67 per cent increase in the family planning acceptors over the corresponding levels last year. This covers those who have accepted sterilisation, IUD insertions, convention contraceptives and oral pill, which seems satisfactory. But the committee set up by the National Development Council to enunciate a new population policy for India has recommended the setting up of an independent social development commission to implement the country's family planning programme in a holistic manner. The commission should look at population education as well as population policy giving top priority to social development. The commission has recommended only half a dozen members so as to be free of the bureaucracy and the IAS. It should be totally independent and have representations of the Planning Commission and secretary health in an ex officio capacity. In other words the committee proposed to take away the responsibility of population control work from the government and hand it over to the

Commission. The committee also recommends the abolishing of "method specific targets" so that the burden of the sterilisation target will no longer be there. It wants the dichotomy between health and family welfare to be removed by merging both departments under one secretary.

Labour and Employment

The labour ministry reports that the number of unemployed in the country has gone up by 5.1 million during the past three years, 1990 to 1993 and with further increase to touch 94 million by 2002. The Planning Commission has indicated that the ongoing structural reforms may slow down the employment growth rate during the initial one or two years but also express the hope that the employment will increase after that. But the minister of state for labour has conceded that during the 10 year period 1977-78 to 1987-88 there was a definite increase among the educated unemployed. The higher the qualifications the greater the chance of remaining unemployed. As 47 per cent of the graduates and above failed to find commensurate employment during this decade, while it was 32 per cent of the secondary level educated and 6.1 per cent among illiterates and those below secondary level. According to Planning Commission estimates the labour force is projected to increase to about 35 million by the end of the current plan and by 36 million during the IX Plan. The Eighth Plan has taken up employment generation as a thrust area which calls for a higher rate of overall economic growth particularly in sectors like land development and forestry, rural non farm activity and rural infrastructure, small manufacturing and expansion of housing. A recent ILO report while expressing satisfaction over India's GDP growth during 1990-93 (on what basis it is not known) has also expressed concern over the growing unemployment and under employment of casual labour and associated poverty. In the 80s around 22 per cent of all male workers in rural areas and

16 per cent in urban areas were available for additional work. This availability among women was 13 per cent and 20 per cent in rural and urban areas. In view of the high rate of unemployment and extension of poverty the need for expanding employment opportunities outside agriculture and the organised sector has been emphasised. For this the non farm sector will have to play an important role both to sustain and increase income levels of the poor. However, to give a boost to the rural informal sector, communications net work, power supply would have to be improved rather speedily. This is seen in the state of Tamil Nadu where though the lost man days through industrial strikes has declined from 28.68 lakhs in 1992 to 24.22 lakhs in 1993 and the government has expanded the Rozgar Yojana programme, employment growth in the state has turned negative for the first time since 1991-92 with a reduction of 14,977 from where it stood a year before. Employment has declined both in the public and private sectors though employment growth in the manufacturing segment was positive, it was negative in agriculture, construction, transport and services. Does this show the problem faced by employment schemes which are being used for poverty alleviation and the trickle down affects of economic growth have not taken place. However versions of the Rozgar Yojana have been launched since 1989-90 including the latest prime minister's Rozgar Yojana for educated unemployed youth, contrary to the economic logic and social purpose of the schemes which aim at short term improvement in jobs, wages and self employment. There has been a diversification and dissipation of public funds earmarked for Rozgar Yojana due to the lack of commitment of government agencies. A recent report of the Comptroller and Auditor General for 1992-93 has confirmed these apprehensions about the mal administration of employment schemes at the centre and the states. The CAG strictures relate particularly to the Nehru Rozgar Yojana where the CAG audit test check shows serious gaps in the

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administration and monitoring of NRY. The basic task of identifying the beneficiaries - urban poor with an annual income of less than Rs.11,850 at 1991-92 prices - was mishandled in a number of states, the stipulation of the 30 per cent of the beneficiaries should be women was not followed and in 10 states there was no monitoring of the schemes for which the union ministry had released Rs.430 crores. In fact of the Rs.600 crores for NRY released by both the centre and the states only Rs.250 crores were actually expended. The states lapse can be seen from the fact that about Rs.100 crores were blocked while the misery of the targeted beneficiaries was increasing. These funds were invested by the states in the UTI and the Indra Vikas Patras. There was little evidence of the assistance created by NRY. The lesson here is that the centre and the states must not treat these employment schemes as a peripheral issue and must give them priority. Further the financial rules for the scheme should be reorganised in order to prevent the mis management and diversion of funds from the urgently needed employment scheme. The Technical Committee on DPAP and DDP has suggested shipping wool processing units and tanneries in drought prone and desert areas to raise employment and income to the local people and to check their migration. It recommends that the state governments be asked to constitute committee for the programme of voluntary action for DPAP and DDP. The Committee is of the view that the conservation of natural resources have to be made privately profitable by providing infrastructure, technology and institutional back up. In this connection it suggests that greater attention should be given to people's own strategies and their own indigenous technologies including the locally preferred plants as a means of reducing the rigors of drought.

The impact of the new economic policies on unemployment is disturbing as the following table shows :

Labour Force and Employment in the Indian Economy

	Labour force (million) (1)	Employ- ment (million) (2)	Unemp- loyment (million) 3 = 1 - 2	Unemp- loyment Rate (%) 4 = 3/1x100
1990-91	356	345	11	3.1
1991-92	364	347	17	4.7
1992-93	372	353	19	5.1
1993-94	380	359	21	5.5

Note : (a) The employment growth has been worked out by use of employment elasticity of 0.45 determined by B.B.Bhattacharya and Anup-Mitra for 1991.

(b) Growth rates of GDP used in the calculation are based on CSO estimates for 1991-92 as 1.1 per cent for 1992-93 and 4.0 per cent and for 1993-94 advance estimate as 3.8 per cent

The table shows that the fundamentals of jobless growth has been initiated by the new economic policy; equally disturbing is the possibility that it will continue for a long time which is against proclamation of those supporting the structural adjustment programme.

International

World Economy

The IMFs semi annual report on Outlook for the Global Economy is optimistic about the future trends though it concedes that the benefits will not be equally shared by the different regions. It has forecast an over all economic growth rate of 4 per cent for 1994 and 3.7 per cent for 1995. The industrial countries will register lower rates at 2.4 per cent and 2.6 per cent while the developing countries will record 5.5 per cent

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In 1994 and 5.8 per cent in 1995. Eastern Europe and the former Soviet Union will record negative growth rate in 1994 but will move to 1.4 per cent in 1995. The latest forecast by IMF for world output in 1994 has been set at a lower 2.6 per cent against the earlier forecast of 3 per cent. Even so compared to the last three years when the rate was 0.2 per cent to 0.7 per cent the forecast is high.

In its World Economic Outlook, IMF states that continuing strong growth in many developing countries has been the most encouraging aspect of rising global economic trends. The sustained growth is likely to continue with aggregate output in the developing world projected to grow by 5 per cent to 6 per cent in 1993-94. It states that with the strong adjustment efforts in an increasing number of countries, average growth in the developing countries could be sustained at about 6 per cent a year for the medium and the longer term.

ESCAP in a report features the development of the world economy over the past three years as being one of desynchronisation in the fluctuation recorded by individual economies. This contrasts with the expectation of great synchronisation resulting from growth of globalisation of the economies through international trade, investment, technology and finance. Until 1991 the recession was largely an Anglo Saxon factor covering Australia, Canada, New Zealand, UK and US, while most other economies including Germany and Japan were growing. In 1992 the major economies of France, Germany and Italy and many of the similar economies went into serious recession. Industrial economies of North America, Australia, New Zealand and Europe have experienced persistently higher rates of unemployment.

The IMF underlines the new role of developing countries as full fledged partners in the global economy. This was noted by the managing director of IMF during the

50th anniversary of the Bretton Woods system contrasting the almost total absence of the developing countries at the start of the system and their major part today in the world economy. This new role has reflected in the life of the Funds where almost 130 of the Funds 118 members are developing countries. The possibility of a new allocation of SDRs was emphasised by him to counter the continuing fall of the share of SDRs in global reserves to below 3 per cent. Hence he has proposed an SDR allocation to SDR 36 billion.

Another issue is the growing opposition within the US Congress to the ratification of the Uruguay round, due in part to the reduction in revenue that would result from lowering tariffs and the loss of sovereignty involved, similar to the position of their counter parts in India, the opponents of GATT. In the US worry about the loss of sovereignty to the WTO seems to be growing. While the Indian opposition believes that WTO will strengthen US domination, the American opponents believe that WTO will lead to a decline in US influence. The American critics believe that the one country one vote principle along with the institutionalising of voting will give the developing countries a distinct edge in the WTO. But the US will still have the edge through its role in aid through which it can have the support of a sufficient number of developing countries to continue its domination. Is this fear of the American opposition behind the proposal to talk on social issues WTO? The issue of WTO is also clouded by the US use of super 301 which will be limited under WTO.

A joint conference of the World Bank and SAARC in October 1993 concludes that unless credible and sustainable country based programmes for reducing poverty are adopted within a relevantly short time, the stability of the socio political economic system in South Asia will be seriously disturbed. It states that though much has been achieved in poverty reduction it pace

In South Asia particularly for the extremely poor has been distressingly slow.

GATT and Farm Trade

An FAO study states that the Uruguay round will stimulate world trade in agricultural commodities only to a limited extent. There will be only a 5-10 per cent increase in prices of temperate zone products and similar increase or even slight decrease in the prices of principle tropical commodities. This means the agricultural policy is likely to change radically although the quantitative cuts in support to agriculture are relatively small and spread over a number of years. The Uruguay round will affect markets only towards the end of 1990s and there will be relatively small changes in the net export earnings of developing countries in both temperate and tropical products. This is important for India and should help tonning down the controversy over the gains from GATT. The report states that in general there will be no change in the global volume of trade though there will be some changes in the pattern.

ILO Report

On miners and its response to the new globalisation system ILO sees no improvement for the 15,000 miners in the world who lose their lives each year at work. In fact the report contends that the problem may be even worse and the death toll still higher. Many incidence of death and injury in gas blasts, earth slides and cables are unreported across the third world and eastern Europe. Mine owners and governments are also failing to record the loss obvious ailments affecting miners - long term injuries caused by noise and vibration, temperature, commercial products, radio activity and gas and dust inhalation. In another report ILO considers the means of adapting itself to suit the needs of ongoing globalisation specially in the context

of the effectiveness of its standard setting process. The report reviewing 75 years of ILO looks at the entire process of linking social justice to trade between countries. The guiding spirit is to set up a machinery providing affective incentives to member countries to ratify the convention, the incentives call for a strict adherence to an existing practice - a pledge by the ratifying countries not to resort to unilateral trade restrictions. This it believes would not only bring more countries to implement ILO standards but will be consistent with ILOs mission to promote peace in trade relations and social justice including social justice between nations. It will be interesting to see whether the stagnating rate of the number of countries that have ratified certain new conventions can be increased through these means.

SAARC

Intra SAARC trade is growing at the rate of 27 per cent per annum since 1991 and is estimated to touch \$3 billion in March 1994. Taking into account that the SAARC Preferential Trading Arrangement (SAPTA) is likely to be implemented from 1995, the intra regional trade by the turn of the century is likely to be around \$10-12 billion, according to a FICCI report. SAPTA would lead to the creation of a unified trading block on the lines of a single European market. The European trade block took over three decades and within the time period SAPTA could be equally successful. Article III of the Agreement contains the over all reciprocity and mutuality of advantage is designing to meet such concerns as India's largeness and dominating position. The least developed SAARC countries - Bangla Desh, Bhutan, Maldives and Nepal will be given duty free access, exclusive tariff preferences for their export products, the countries will be allowed to negotiate long term contracts to achieve a reasonable level of sustainable exports

of their products. The means of developing Intra SAARC trade are being discussed in seminars and other discussion groups. It is hoped that the Intra SAARC trade now being 3 per cent of the regions global trade can be trebled by the end of the decade through SAPTA.

The Future of AID

A coalition of major non governmental aid organisations point to the rich countries aid development abandoning over a billion people who live in poverty. Their report points out that increasingly large business interests are cutting the volume and direction of international development aid. In its annual report for 1994 headed, the Reality of Aid 1994, the International Council states that only Japan, Denmark, Ireland and New Zealand are planning an increase in the next few years. The report points out that aid is becoming more commercialised and linked to creating business advantages for donor states in countries receiving assistance. It states that the Reality of Aid in 1994 is depressing as donors seem to fail to live up to their commitments on aid volume. OECD appears to see economic adjustment and reform as the essential conditions for development and focus aid accordingly, making alleviation of poverty a side bonus. The report states donors make poverty reduction the first priority until improvement in the quality of life for the world's poorest people are seen as the bench mark for success for aid, billions of dollars a year will continue to be diverted away from families for whom unemployment, disease and malnutrition are every day features". Japan which currently provides 20 per cent of total overseas aid of all OECD members plans a substantial increase over the next five years. The US, the largest aid donor in volume with the projected expenditure of \$18.8 billion for 1994 was still not spending more than 0.2 per cent of its GDP for needy countries.

Other Items

India International Centre

There were two events in May in the India International Centre. The first was the Standing Finance Committee which reviewed the satisfactory progress in the plan and construction of the Annex, it also reviewed the various rates charged by the restaurant and for the rooms and adjusted them in line with the inflation. The second event was the monthly panel discussion on agricultural policy which reviewed the policy historically and its place in the current economic reform. Historically the agricultural policy was either non-existent or subordinated to other exigencies. In the current reform programme there is need for the agricultural policy to make itself felt and meet the urgent need with regard to terms of trade, agricultural prices and employment.

Tamil Nadu State Council for Science and Technology

In early May the Council organised at Anna University a rather impressive ceremony for the award of prizes to distinguished scientists. For this purpose the Council established a group of 10 sciences and appointed a three member committee for each to examine the candidates for recognition. Of the 10 groups there were no candidates suggested for the social sciences and the candidates proposed for medical sciences and some of the earth sciences were not regarded as satisfactory. The situation with regard to social sciences is worrisome because the non receipt of candidates for social sciences is simply a reflection of the poor and low state of social sciences in the universities of the state. The Minister of Education who presided over the function, was so impressed that he announced a special prize financed out of his own fund for the best of the scientists who were awarded prizes.

Tenth Finance Commission's visit to Madras

The X Finance Commission chaired by K C Pant with Manu Shroff, V P R Vithal, and Arun Sinha as members visited Madras to discuss with the government and other interested parties the financial problems faced by Tamil Nadu for the five year period 1995 - 2000. Tamil Nadu placed before the Commission its very difficult financial position and so proposed an increase in the vertical transfer from the centre to the state by increasing the share of excise to be allocated to the states from 45 per cent to 60 per cent and no special allocation to the deficit states. It also proposed that the corporation tax should become a sharable item with 20 per cent to be allocated to the states. In view of the heavy burden of debt on which Tamil Nadu obtains only 25 per cent annually from the due loans, the rest being used for servicing the debt, the state has proposed that the consolidation of the entire debt as on 31.3.1995, 50 per cent of which should be written off and the balance made repayable with a moratorium of 5 years. The X Finance Commission on its side pointed out that Tamil Nadu had a three fold increase in non plan expenditure between 1986-87 and 1993-94 which was mainly the cause of the state's rapidly increasing revenue deficit. Non plan expenditure had been 105 per cent of the state's revenue in 1986-87 with the state governments own projects for the period 1995-2000, raising it to 225 per cent. The commission also pointed out that Tamil Nadu has an ever rising salary bill which accounted

for 40 per cent of revenue expenditure in 1991-92 which crowds out both capital outlays as well as other development expenditure. The level of government staffing it points out is noticeable on the high side when compared to the All India average and other major states. The staff can be reduced if the state government creates an environment for growth and acts as a catalyst. The Commission also met with a group of economists from the state at which in addition to emphasising the above points, an effort at resource mobilisation and strict expenditure control was emphasised in the matter of salary bill, and the government at the centre is in a far worse position than the state, so that economy in the central staff expenditure is an urgent one.

First Article

The Paper for the June Seminar "Development Prospects of Fisheries Sector in India: With Special Emphasis on Marine Products Exports" appears as the first article.

Second Article

A note on "Subsidies and their Pros and Cons" appears as the second article.

Book Review

A review of the book "Changes in the Cropping Pattern: A case study of South Arcot District, Tamil Nadu" appears in the book review section.

MIDS News

The Annual Ph.D. Scholars and Guides Workshop sponsored by ICSSR, Delhi and hosted by Manonmaniam Sundaranar University was held from April 25-28, 1994 at St. Jude's Shrine, Tuticorin. 28 scholars and 12 guides attended the workshop in the disciplines of Economics, History and Sociology. The resource persons were Drs. U. Sankar, V. Chandrasekar Bhat, Padmini Swaminathan and Rajan Gurukkal.

The Twenty-fourth Interdisciplinary Research Methodology Workshop on Gender and Human Resources Development was held at the ICSSR, Southern Regional Centre, Osmania University from June 7-10, 1994. This was the third in the series of three workshops on Human Resources Development attended by over 30 participants from different disciplines of social sciences. Drs. S. Neelakantan, Padmini Swaminathan, M.S.S. Pandian, Paul P Appasamy, D. Jayaraj, V. Chandrasekara Naidu and M. Thangaraj attended the workshop from the Institute.

Mr. S. Guhan attended Experts Group Conference for World Summit for Social Development in Princeton, USA from June 24-26, 1994 organised by the Overseas Development Council. He also gave a

talk on "India: 1991-96" to Indian Progressive Students Group on June 28, 1994 at New York.

Dr. P. Radhakrishnan was away in Amsterdam from April 19 to June 17, 1994, as an ICSSR nominee under the exchange of scholars scheme within IDPAD (Indo-Dutch Programmes for Alternatives in Development). During his stay he interacted with scholars in the Sociological-Anthropological Centre, Amsterdam University, and Centre for Asian Studies, Amsterdam (CASA), International Institute of Asian Studies and Centre for Non-Western Studies, Lieden, and Institute of Social Studies and IDPAD, The Hague. He also presented a paper on "India's Affirmative Action Programme" at a colloquium in CASA on May 30, 1994.

Mr. Heinz Vergin, Director, India Country Department, Washington - accompanied by Mr. Luis E. Derbez, Division Chief, India Country Operations visited the Institute on July 8 1994.

A group of faculty from St. Lawrence University, Canton New York led by Ms. Sharada Nayak, Director, Educational Resources Centre, New Delhi visited the Institute on Tuesday, the 12th July 1994.

June Seminar

Development Prospects of Fisheries Sector in India : With Special Emphasis on Marine Products Exports

Dr. M. Krishnan

Central Instt. for Brackish Water & Agriculture (ICAR), Madras

Dr. B.M. Sharma

Indian Agricultural Research Institute, New Delhi

FISHERIES constitutes an important sector in the economies of all maritime nations from the point of view of supply of protein rich food, foreign exchange earnings, employment potential etc. Total catch of fish in the World is of the order of 92 million tonnes in 1991 of which India's share is 4 million tonnes. China occupies the first position in terms of total catch aggregating 13 million tonnes, while India ranks seventh in 1991.

India is blessed with abundant fishery resources, both marine and inland. The country has coastline of 8085 kilometers and an exclusive economic zone of over 2 million square kilometers. It is marked with perennial rivers having a total length exceeding 6421 kilometers, 1097 million hectares of reservoirs, 1.3 million hectares of beels, 1.4 million hectares of brackish waters and innumerable tanks and ponds with an extent of over 2.12 million hectares of water area. The nation's potential for commercial fisheries is immense.

This paper attempts to:

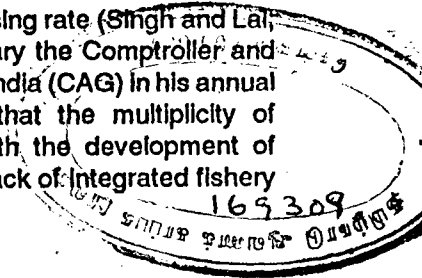
1. Analyse the growth trends in fish production in India;
2. Study the growth of marine products exports vis-a-vis total exports and
3. Examines the product composition and geographical distribution of marine products exports.

Table 1 gives the growth of fish production during the period 1985 to 1993. Fish production has increased from 2.8 million tonnes in 1985 to 4.8 million tonnes in 1993. The

ratio of marine fish catch and inland fish production to total production remained stable at 3 : 2 during this period. Total fish production grew at a compounded growth rate of 6.25 per cent for the period 1985-1993. The growth rate of inland fish production was slightly lower than that of marine fish production for the same period of time. It is of significance to note that in view of the estimates of the Food and Agricultural Organisation (FAO) that 17 of the World's major marine fishing areas have either reached or exceeded their natural limits and that nine of these areas are in serious decline resulting from indiscriminate fishing, the role of culture fisheries assumes greater importance and needs to be strengthened.

Share of inland fish production in total fish production increased from 36 per cent in 1980-81 to 41 per cent in 1992-93. The Eighth Plan aims at increasing the average productivity of fish from the present 2075 kilograms to 2500 kilograms per hectare per annum and the area under fish culture from the existing three lakh hectares to four lakh hectares. Production of cultured shrimps is expected to touch two lakh tonnes from one lakh tonnes by the turn of this century against the present production of 45,000 tonnes from 70,000 hectares. Increasing plan outlays to the fisheries sectors is fully justified since contribution of this sector to the gross national product is found to be growing at an increasing rate (Singh and Lal, 1990). On the contrary the Comptroller and Auditor - General of India (CAG) in his annual report pointed out that the multiplicity of agencies dealing with the development of fisheries has led to lack of integrated fishery

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development in the country. The inability to utilise the funds allotted was indicative of the fact that the managerial capacity to accelerate and expand activities in the

sector was inadequate. Streamlining administrative machinery and proper infrastructure build up would perhaps help realise the inherent potential in the marine sector.

TABLE 1 : Growth of Fish Production 1984-85 to 1992-93

(million tonnes)			
Year	Marine	Inland	Total
1984 - 85	1.69	1.10	2.80
1985 - 86	1.72	1.16	2.88
1986 - 87	1.71	1.23	2.94
1987 - 88	1.66	1.30	2.96
1988 - 89	1.81	1.34	3.15
1989 - 90	2.28	1.40	3.68
1990 - 91	2.30	1.54	3.84
1991 - 92	2.45	1.71	4.16
1992 - 93	2.60	1.79	4.39
Compound Growth Rate	6.35*	6.25*	6.25*
Projected Production for Year 2000	2.92	2.69	6.59

* Significant at 1% level

Source : Handbook of Fisheries Statistics, Ministry of Agriculture.

Table 2 examines the growth in the value of marine products exports and the value of total exports from India. Value of total exports increased from Rs.733 crores in 1951-52 to Rs.53688 crores in 1992-93. The share of the value of marine products in total exports increased from 0.45 per cent to 3.29 per cent during the period. This share of marine products registered a continuous increase till the end of the fifth plan period and the declined to 2.29 per cent in 1989-90.

The average unit value realisation of marine products has steadily increased from Rs.1.48 per kilogram in 1951-52 to Rs.84.95 in 1992-93. This increase has been brought about by a variety of value addition processes of the marine products like the individually quick

frozen (IQF) shrimps. The general argument that the share of primary products in the total exports is expected to come down with the development of the economy and thus the declining shares of the marine products in the total exports augurs well for the economy does not hold much water. The marine products exports industry is now a multi-crore, highly capital intensive sector based heavily on aquaculture. The total intensity to issues of coordinating the policies of the Department of Industrial Development, Ministry of Industry and the Central Board of Excise and Customs have led to chaos in input pricing of imported equipment and feeds often leading to a guarded approach and more often to a premature withdrawal of industrial houses from the aquaculture sector.

TABLE 2 : Growth in the Marine Products and Total Exports in Different Plan periods in India

Year	Export of Marine Products		Total Export value	Quantity in '000 tonnes value in Rs.Crores.	
	Quantity	Value		Share of Marine Products Export in total %	Average Unit value Realisation Rs/Kg.
1951 - 52	22	3.3	733	0.45	1.48
1955 - 56	24	3.9	609	0.64	1.64
1960 - 61	17	4.1	642	0.64	2.39
1965 - 66	19	13.5	806	1.67	7.06
1968 - 69	31	33.1	1358	2.44	10.81
1973 - 74	47	76.3	2523	3.02	16.37
1978 - 79	92	262.0	5726	4.58	28.43
1983 - 84	86	362.0	9771	3.77	42.05
1989 - 90	110	634.0	27658	2.29	57.64
1992 - 93	208	1767.0	53688	3.29	84.95

Source : Statistics of Marine Products Exports 1986 & Marine Products Exports Review 1992-93.

The examination of the compound growth rates of marine products exports and total exports reveals an interesting picture (Table 3).

TABLE 3 : Compound Growth Rates of Marine Products Exports and Total Exports from India

(Per Cent)				
Year	Value of Marine Products (Rs. Cr)	Quantity in '000 tonnes	Value of total exports (Rs. Cr)	Unit Value realisation (Rs. C)
1. 1951 - 1960	6.67*	0.73NS	-0.37NS	6.05***
2. 1961 - 1970	31.74***	9.89***	10.07***	31.71***
3. 1971 - 1980	22.82***	10.65***	19.32***	22.91***
4. 1980 - 1987	8.35*	2.83NS	11.48***	8.35*
5. 1951 - 1987	18.15***	4.98***	10.70***	21.89***

NS = Not Significant

*** = Significant at 1 per cent level

** = Significant at 5 per cent level

* = Significant at 10 per cent level

The overall growth rate is positive and significant. High significant growth rate in the unit value realisation from the exports of marine products has been responsible for the growth in the proceeds of the exports of marine products. This was evident in the increasing share of marine products in total agricultural exports proceeds at current prices and a rapid decline of the same at constant prices. On the whole the earnings from

the marine products exports grew faster than those from total exports.

Frozen shrimp (black tiger prawn) is central to marine products exported from India (Table 4). In 1986, 58 per cent of total quantity of marine products exported constituting 82 per cent of the total value of exports of marine products came from frozen shrimp. This share in quantity terms fell to 35.66 per cent and in value terms to 66.78 per cent in 1993.

TABLE 4 : Composition of Marine Products Exports from India

Item	Quantity (%)			Value (%)			Unit Value Realisation (Rs/kg FOB)		
	1981	1986	1993	1981	1986	1993	1981	1986	1993
Frozen Shrimp	72.36	58.41	35.66	86.68	82.12	66.78	45.57	72.78	158.65
Fresh/Fr.Fish	11.36	13.54	36.13	3.30	4.24	12.15	11.05	16.23	30.84
Fr. Squid	—	—	14.56	—	—	7.59	—	—	50.03
Fr. Cuttle fish	1.97	5.83	9.10	1.13	2.99	5.73	21.85	26.65	62.63
Fr. Lobsters	0.84	1.35	0.77	1.64	2.81	2.45	73.93	107.70	260.69
Dried items	2.09	7.17	2.03	0.53	1.55	1.02	9.63	11.25	42.57
Live items	—	—	0.23	—	—	3.20	—	—	60.90
Others	9.95	13.98	1.47	4.19	6.30	1.08	11.99	21.04	62.21

Source : From Statistics of Marine Products Exports 1986 & Marine Products Exports Review 1992-93.

The Marine Products Exports Development Authority attributes this to poor landing of shrimp in the year. Marine landings of shrimp have been on the decline owing to intense over fishing in the coastal areas subverting the natural habitat of shrimps. Heavy trawling in the backwaters of Kerala by use of fine meshed drag nets along the sea bed caused the capture of even juvenile shrimps and other forms of marine life which have no commercial value but only helped in endangering the ecology of marine flora and fauna. Thus cultured shrimps hold the key to sustained shrimp production and exports. Export of frozen shrimp in 1993 constituted of

Block Frozen form representing a share of 88 per cent while IQF shrimp accounted for only 11.54 per cent as against 13.80 per cent in 1992⁵. The high unit value realisation of shrimps (Rs.158.65/kilogram) emanates basically from value added products like IQF shrimps. Any let up in the market share of these products would only mean a further decline in the total value realised from marine products exports. It is also important to tap markets on a more intensive scale for marine products like frozen lobsters which fetch a high unit value. Concentrating on exports of a single item like frozen shrimps does not constitute a good marketing strategy.

Japan and USA constitute the major markets for Indian frozen shrimps. In 1992-93 Japan imported 34,600 tons of Indian frozen shrimps which is 46.51 per cent of the total quantity of this marine product exported by India. For the same year USA imported 20,757 tons which formed 27.90 per cent of total Indian frozen shrimps exported. Table 5 gives the cross sectional year wise share percentage of the total market for frozen shrimps in Japan and USA. For the sake of convenience the groups have been split into those enjoying

less than 5 per cent (low), between 5 and 10 per cent (semi-medium), between 10 and 15 per cent (medium) and above 15 per cent (high) of the total market for frozen shrimps in Japan and USA. India enjoyed more than 15 per cent of the share of Japanese market for frozen shrimps in year 1982 and 1986 and but slipped to the medium bracket retaining only 13.41 per cent of the market share in 1992. Indonesia with 22.14 per cent and Thailand with 19.18 per cent are the market leaders for frozen shrimps imported by Japan.

TABLE 5 : Changing Market Share of shrimp Exporting Countries in the Shrimp Imports of Japan and USA (1982-1993)

Import Penetration	Japan			USA		
	1982	1986	1992	1982	1986	1992
1. Low (5%)	Malaysia Mexico Hkong Pstan USSR Sabah China	Malaysia Mexico Hkong Pstan USSR Thallan Australia	Australia Taiwan Denmark	Guyana Eldor Pstan	Vzuela Guyana Eldor Pstan Japan	Philippine Panama Hondura Pstan
2. Semi-Medium (5 - 10%)	Thailand Taiwan Australia	China	Philippines Vietnam Greenland	India Panama	India Panama	India (6.3%) Mexico Indonesia
3. Medium (10 - 15%)	—	Indonesia	China India (13.41%)	Edor		
4. High (15% & above)	India Indonesia	India Taiwan	Indonesia Thailand	Mexico	Mexico Edor	Edor Thailand China

Hkong = Hong Kong
Pstan = Pakistan

Eldor = Elsalvador
Edor = Ecuador

Vzuela = Venezuela

India has been consistently in the semi-medium bracket of 5 - 10 per cent share of the total quantity of frozen shrimps imported by the USA. In 1992, Indian share amounted to only 6.3 per cent of total imports of frozen shrimps of the USA. i.e. of 2,19,888 tons of

frozen shrimps imported by USA, India managed to export only 13,852 tons to that country. Ecuador (24.88 per cent) Thailand (24.49 per cent) and China (22.48 per cent) have captured between them almost 75 per cent of the total imports of frozen shrimps by

the USA. The quality control regulations of the United States Food and Drug Administration (USFDA) are most stringent. Instances of the alleged presence of salmonella contamination above permissible levels in marine products exported by India to the USA have not helped India in any way to make further inroads into the US market for marine products.

The fact remains that cultured shrimps will be the mainstay in Indian marine products exports in the years to come. The marine shrimps have almost been fully exploited and other marine species like tuna do not have a ready domestic market and are yet to be exploited in a big way by the corporate sector for the export market. Product diversification and value addition of Indian shrimps along with adoption of proper marketing strategies and coordinated effort of the Association of Seafood Exporters of India, the Marine Products Exports Development Authority, the Ministry of Industry and Commerce hold the key to the success of Indian seafood industry.

Aquaculture has gained immense potential in the recent times in India. Though today, India ranks fourth among the shrimp

producing and exporting countries it has the potential of meeting the target of US \$ 3000 million in seafood exports³. With the decline of Taiwan as leading exporter, China has emerged the leader, followed by Indonesia, Thailand and Malaysia. However as Chinese shrimps are plagued with diseases and other leading producers being unable to meet the demand, the World is looking more towards India for good quality shrimps. With the international market price being about Rs.400 a kilogram, shrimp farming has become more or less, a 100 per cent export oriented industry.

The new situation calls for greater responsibility on the farmer, the corporate sector and the Government if the country is to accept the challenge of capturing the major share in the exports market. The Indian marine products sector should not be burdened with higher taxes making them uncompetitive in the international market. Farmers should adopt scientific methods for better yield and quality output. High standards of processing and an uncompromising stand on quality control alone would help India to become the market leader in marine products exports.

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On Subsidies and their pros and cons *

WHEN I reflected on the suggested subject of my address, and this evening's theme subsidies it occurred to me that I had in fact spent much of my life fighting against, and for, subsidies. It therefore seemed a subject on which I might be qualified to speak, and one that is in fact of considerable importance to India today.

There is a problem with the word 'subsidy' it not only means different things to different people, it also arouses quite strong emotions. When a World Bank economist hears the word "subsidy" it is usually sufficient to cause apoplexy. On the other hand, if it is suggested to one of our honourable political leaders that a particular subsidy might well be reduced or withdrawn, the reaction is equally visceral. I have found myself sharing both reactions at various times. So, perhaps if I share some of my experiences with this distinguished audience it may contribute a bit more clarity.

As some of you may know, I have spent my life as an employee of farmers. What many of you may not know is that the Kaira District Cooperative Milk Producer's Union was started in reaction to what might be characterised as a subsidy programme of the erstwhile colonial government.

During the Second World War, the Government of India were alarmed by the high rate of interstinal and other tummy upsetting disorders affecting their British citizens in Bombay. As was the practice in those days, they called in an expert. Then, and unfortunately as is all too often the case today, an expert, by definition, was white, English speaking, and from far enough away not to be held accountable for his recommendations. In this case an English expert was called in. I can perhaps best describe his findings by citing a single line

of his report: "The sewage water of London is bacteriologically superior to the milk of Bombay".

Clearly this posed a problem for the Government. It was quite essential that the British men, women and children domiciled in Bombay should have access to clean, fresh and hygienic milk. It was a fact that even in those days the Kaira District of Gujarat was recognised as a superior milkshed. The conditions there had conspired to ensure production of bountiful quantities of milk, so much so that India's premier dairy, "Polson's" a name almost as well-known then as AMUL is today was located in Anand in Kaira District.

Because of this plentiful supply of milk, the Milk Commissioner of Bombay conceived of a scheme, or shall we say, he schemed, he would contract with Polson to procure and ship fresh milk to Bombay. After the feasibility of doing so was demonstrated, the scheme was started in right earnest. Polson, for this service to government and the people of Bombay, was given the sole right to purchase milk in Kaira district. Almost everyone was delighted by the results. The milk consumers of Bombay received a supply of superior milk at a very low price. Polson's earned a handsome profit by organising the procurement and shipment to Bombay. And the traders who bought the milk from Kaira district's farmers were the happiest of all; milk being a perishable commodity, they could pretty much set whatever price wished, earning a very handsome margin in the process.

Now, if you think about it, this was indeed a subsidy programme. The objective was to make inexpensive, safe, good quality milk available to the citizenry of Bombay. This was achieved through monopsony purchase

* Note prepared by Verghese Kurien on the occasion of the Industrial Economist Business Excellence Award 1994 held at the CLRI, Adyar on March 12, 1994.

of milk. In short, the farmers of Kaira district were subsidising the milk consumers of Bombay.

Not surprisingly, the farmers objected. They went to Sardar Vallabhai Patel and, after explaining their predicament, asked for his advice.

Now, if you will pardon an unpaid advertisement, I would urge you all to see the movie, *Sardar*, in which the history of the Kaira farmer's milk strike and the formation of our cooperative is presented. Suffice it now to say that following the Sardar's advice, Kaira district's farmers fought back and ultimately won the right to sell milk to the Bombay Milk Scheme. To do this, they established a cooperative the Kaira District Cooperative Milk Producers' Union, better known by the name AMUL. And, because the Milk Commissioner was convinced that a group of farmers would never succeed in managing their own cooperative, he granted them permission to sell milk to Bombay. The rest, as they say, is history.

When independence came, the British Milk Commissioner was replaced by an Indian but the urge to subsidise the urban consumer at the expense of the farmer continued. As some of you may know, the buffalo and the cow don't produce the same amount of milk every day of the year. During the winter when the weather is good and feed is available, milk production soars; in summer, when the weather is hot and dry and feed is scarce, milk yields drop and many animals become dry. Now, our new Indian Milk Commissioner in Bombay had discovered that he could import milk powder no doubt subsidised by the governments of the exporting countries and blend it with our local milk and thereby not only keep the milk price low, but earn a healthy profit as well. So, when winter came and our milk supplies soared, he would refuse to take Kaira District's milk. He much preferred his imported powder and the profits it generated. By that time I had joined the Kaira District Cooperative.

You will note my excellent sense of timing. I enter the scene once the battles have been fought, all the hard work has been done and the cooperative has been established and is running!

When we were faced with the refusal of the Bombay Milk Commissioner to buy our milk during the flush season, we naturally protested. We saw no reason why the farmers of Newzealand should be given preference over our own farmers. Our Chairman, Shri Tribhuvandas Patel, and I met the milk Commissioner and then met the Minister and, ultimately, with a great deal of support from friends in high places, we prevailed. But the lesson was clear: unless we established the capacity to conserve our milk by manufacturing powder and butter, and unless we were able to produce and market value-added products, our farmers would be subject to the whims of every politician and bureaucrat who wished to curry favour by ensuring cheap milk supplies to our major cities.

Over the years we continued to face such problems. You might even say that one central rationale for Operation Flood was to pre-empt the dumping of large quantities of surplus European powder and butter in India. That would have ensured inexpensive milk for our cities and disaster for our milk producers.

Even with the success of Operation Flood, the pressures to subsidise the urban milk supply at the cost of our farmers continued. I have never understood the formulas our politicians use: how are the votes of urban consumers more valuable than those of rural producers? Why does the Parliamentarian from Chattisgarh or Rayalaseema feel it is more important to ensure that Delhi's consumers can buy milk at the lowest price in India while farmers in their own constituencies earn a bare subsistence income, if that. Within the last 18 months, the price of milk in this city of Madras was kept so low that sharp drops in cooperative procurement took place with private vendors

sopping up the difference and earning large profits by sale of milk in Kerala.

Some years ago, when the late Rajiv Gandhi was our Prime Minister, Government was putting considerable pressure on us to constrain the Delhi milk price. I went to the Prime Minister and told him that I thought that he had more important matters with which to concern himself and his Cabinet than the price of Delhi's milk! After a moment's reflection he agreed and, since then, we have been able to adjust prices to reflect the market. But, whenever we do increase the price of milk, the howl from consumers is loud: newspaper photographs show rather well-fed ladies agitating against the increased price and editors write piously about how 50 paise more for milk is a clear blow to the well-being of the nation! Of course, when those newspapers raise their prices, it is because of the increased costs of production, a factor that apparently doesn't affect our nation's farmers! In fact, our urban consumer — so pampered by subsidies, fails to recognise that what he calls the price of milk is no less than what the farmer calls his income.

Over the years, the subsidy on milk has largely been met by repressing the urban milk price. The effect has been to ensure that every strata of society can buy cheap milk — at the cost of our farmers. The long-term price, however, is a high one: low prices cause the farmer to turn to other investments and it isn't long before production declines and prices soar. Either that, or we are forced to import at the cost of our foreign exchange reserves. This is precisely what happened in the case of edible oil. There are probably some of you present who will recall that India was once a net exporter of oilseeds and oil. However, that picture began to change dramatically and for the worse in the 1960s. Government, in its wisdom, decided that edible oil was essential and therefore embarked on a program of importing oil for the Public Distribution System and to ensure adequate supplies to the vanaspati

manufacturers. By the middle of the 1970s, we were the world's largest importer of edible oil.

About that time, Government had also noticed that Operation Flood was producing some commendable results. We were asked initially by the Gujarat Government, and then by the Government of India to try to do with oil what we had done with milk. We agreed, albeit with some reluctance. Where the traditional milk business was scattered and not well organised except around our cities, the oil trade was in the hand of some of the wealthiest and so as not to offend the sensibilities of those present I would better not use the appropriate adjectives the best organised oligopoly in the country.

When I agreed to take up this task of getting our oilseeds economy back on its feet, I told Government that success depended on ensuring that our farmers received a stable, remunerative price for their produce. To achieve this, we had to moderate and then reduce imports and we had to end subsidies to vanaspati manufacturers and the other beneficiaries of the wholesale imports that were then taking place.

A look at those subsidies is very instructive. Who should have received subsidised oil? I think everyone here would agree that it should have been our rural and urban poor, those who need a small bit of oil to ensure inclusion of some vegetable fat in their diets. And, I'm sure many of you would add, "that is what the Public Distribution System is for".

What happened to that imported oil, oil that the country often paid a premium for because everyone knew that the STC purchased only on Thursdays and world prices would respond accordingly? Well it was divided between the vanaspati manufacturers and the PDS. The vanaspati manufacturers? Is vanaspati a product used by the urban and rural poor? How often do you see a poor person walk into a shop and purchase a 5 kilogram tin of vanaspati? Have

you ever seen a vanaspati package of 50 grams, or a 100 grams? Vanaspati is a product consumed by the urban middle class as a substitute for ghee. Despite what the Vanaspati Manufacturers Organisation would have you believe, it is not a poor man's product.

Well and good. There is at least the PDS. Or is there? When we got involved with the oilseeds and oil business we discovered a very curious fact: the oil deficit states are places like Bihar, UP, Rajasthan and the like. But it was not those states that received PDS oil allocations. In fact, in the average year Bihar received around 1 per cent of PDS oil and UP about 2 per cent. Where, then, did PDS oil go? It went to the very states Gujarat, Maharashtra, Andhra Pradesh and Tamil Nadu that are our major oil producers. Do you find that curious? When we discovered this rather remarkable allocation of oil, we also found that the vast majority of it was provided in bulk. So we proposed, perhaps a bit naively, that it would be a good idea to pack PDS oil in very small, but secure, packaging so that it would be available in a clean, hygienic form for the poor consume. To judge from the reaction from the Civil Supplies Department you would think we had proposed violent revolution.

Let us be quite clear: we were importing edible oil at great cost to the national exchequer. At its peak the oil import cost was enormous: 1 million tons worth Rs.735 crores (\$600 million) in 1985-86; 1.47 million tons worth Rs.626 crores (\$489 million) in 1986-87; 1.95 million tonnes worth Rs.969 crores (\$ 747 million) in 1987-88; and another 1.1 million tonnes worth Rs.730 crores (\$504 million) in 1988-89. Most would agree that if this investment of foreign exchange was meeting a critical nutritional need of a vulnerable section of our population, then perhaps it was justifiable. But the fact is that it was subsidising vanaspati manufacturers and the oil trade who used cheap imported oil to blend with their own purchases while selling the final product at enormous profits!

During this period, imports accounted for one-fifth to one-third and more of our domestic oil supply. The cost per tonne of our imports actually declined from \$579 to \$465 during the period and was less than \$400 during 1986-87 and 1987-88. Yet the wholesale price index for edible oil increased 47 per cent from 288 to 423 during that period, peaking at 473 in 1987-88 when imports accounted for 40 per cent of our oil supply and were almost \$200 per tonne cheaper than in 1985-86! In other words, during a four year period, our Government spent more than \$2 billion to import oil equivalent to something like 30 per cent of our domestic supply, yet prices rose while not surprisingly oilseed production plummeted. Who benefited from this massive subsidy: Not the consumer for whom edible oil prices rose more rapidly than did other commodities! Not the farmer whose harvest prices were manipulated down by traders with access to cheap imported oils! Not the country, which spent \$2 billion without meeting any significant domestic objectives unless higher prices and depressed production were the goal!

The subsidy went straight into the pockets of the oil trade and vanaspati manufacturers which is a national tragedy.

Government did act to correct this situation. In 1989-90 an integrated policy on oilseeds and edible oil adopted to restrict imports, to wean the vanaspati industry from cheap imports, and to ensure that PDS oil went to those for whom it was intended. Along with this, the NDDB was asked to manage a Market Intervention Operation (MIO) to maintain oilseed prices at a remunerative level and to restrain, when needed, increases in the prices of oil. What was the result? Within four years we have achieved near self-sufficiency in edible oils. There is stability in oil prices and Dhara has given our farmers a brand name, and our consumers an oil product that is reliable and inexpensive. Imports are a fraction of their earlier levels, as are our foreign exchange outlays. One

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would have thought that this would have been trumpeted as a triumph by Government. Instead, from the day the integrated policy was announced it has faced fierce opposition. This has come not only from the oil trade and their supporters in the press. Regrettably, it has come from within Government itself, where some of those mandated to implement the policy have persistently opposed it. It would seem that those who receive subsidies are often reluctant to see them end!

Let me touch briefly on some other subsidies:

You have no doubt seen articles in the press in which we are told that Government is carefully considering continuation of fertiliser subsidies, balancing the cost of the subsidy to the treasury as against the interests of our "poor farmers".

The cost is substantial: In 1991-92 our farmers are reported to have consumed about 13.6 million tonnes of nutrients, with an estimated subsidy of Rs.4,000 crores, or about Rs.2,940 per tonne of nutrient. Bear in mind that a tonne of nutrient translates into considerably more tonnes of fertilizer! Even so, the cost works out to only about Rs.570 per hectare of land under high yielding varieties, where yields, prices and returns have increased far more rapidly than have the prices of fertilizer. In fact, most studies show that among farmers, the burden of any reduction in fertilizer subsidies would be borne largely by sugar cane and wheat farmers those whose incomes are amongst the highest of all our farmers. Very little of the burden would be carried by the poor farmers for whom our politicians and bureaucrats shed tears.

Who are the real beneficiaries of fertilizer subsidies? Most would agree that the lion's share of benefit accrues to fertilizer manufacturers, particularly those whose levels of inefficiency make them uncompetitive almost all of which are state owned. So the tax burden of Rs.4000 crores

needed to subsidise our "poor farmers" is largely of benefit to poor state industry.

There are many other subsidies defended as essential to the welfare of our "poor farmers". Electricity is subsidised when it is not stolen. Irrigation water is subsidised when it is available. The net result, of course, is that power isn't available to farmers when they need it, and neither is water. Our rural electric systems are in disarray, only marginally better than the state of the irrigation systems in which our nation has invested so much. The real objection to a Narmada Project is that the water will be given away, the system will fall into disrepair, no farmer will invest in drainage and efficient use of water, and within five decades the money will have been totally squandered.

Let me mention one last subsidy: agricultural credit.

You are perhaps aware that most agricultural credit through cooperatives is subsidised. If you or I go to a bank to borrow, we may pay 16 per cent or 18 per cent; but our farmers receive credit at 12 per cent. Now you might think this is a good thing. After all, those loans are used to build our agriculture, to ensure that we all have the food and fibre necessary to live. But, if you did think it was a good thing, you would be mistaken.

First, the demand for agricultural credit is far greater than the supply of loan funds. Our farmers cultivate something like 175 million hectares of land every year, more than 50 million hectares of which is irrigated. In 1990-91, cooperatives, commercial banks and regional rural banks together loaned farmers Rs.13,555 crores. That sounds like a lot of money, until you divide it by 17.5 crore hectares. It works out to about Rs.775 per hectare which, as any farmer will tell you, is not even enough to buy enough groundnut seed to plant that hectare. And, let me tell you something that NABARD doesn't publish in its statistics: a good portion

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of that Rs.13,555 crores was actually what is known as an "adjustment". A farmer who already owes Rs.600 goes to his cooperative and gets a new loan for Rs.700. Out of the Rs.700 he pays the principal and interest on his old loan, buys some "tea" for the secretary, and walks out the door with Rs.15.00 or so!

Another fact not mentioned in the statistics is that a loan is useful only if it is available at the time when the farmer is paying for inputs. It's of very little use if he receives it long after the crop is sown. By then he has borrowed from someone else usually someone who charges far more than 12 per cent and who doesn't offer loan waivers.

I mentioned that the average loan is Rs.775 per hectare. How much does the farmer save if he pays 12 per cent instead of 16 per cent? He saves Rs.31.00. To save that amount, what does he have to spend? Well, he probably has to make two or three trips to the tehsil headquarters to complete the paperwork. That means his time, transport, meals, and whatever little extra may be necessary to lubricate the wheels of officialdom. He may also find that he has a loan in kind and that kind is not quite what he should be entitled to. While the totals vary, those who study such matters are quite certain that whatever the 4 per cent difference might represent as gain is more than offset by the additional costs involved.

If you ask a farmer about the interest rate, he will tell you he would gladly pay the full rate if the loan was on time, if it was calculated based on his needs not some formula cooked up in a remote Bhavan, if there were no corruption involved in getting it approved and released; and if it helps to ensure that his cooperative attracts sufficient funds to lend what he and other members need for their agriculture.

Now you may agree that the four per cent agricultural loan subsidy is not really as important as our political and bureaucratic protectors of the poor farmer would have us

believe. But, you might ask, what about the loan waiver! There every farmer who owed less than Rs.10,000 had his loan waived. There we have a genuine subsidy. Or do we?

Someone once said, "there is no such thing as a free lunch". Loan waivers were supposed to be a free lunch. But, once again there are costs — both to those who were the "beneficiaries" as well as to tens of thousands of innocent men and women. Once the loan waivers were announced, the cooperative credit structure virtually collapsed for a year. No money repaid, no new money deposited, and therefore very reduced funds available for loans. The long-term damage in terms of the system's credibility is clearly far greater.

But who has paid for this largesse? Government has, to an extent which means that you and I, as taxpayers, have underwritten the costs. However, the cooperative system itself has borne much of the burden and, despite what you might believe, the finances it uses are largely the savings of its members as well as the public who deposit funds with the District Central and State Cooperative Banks.

There is another subsidy in the cooperative structure which also is worth noting. Normally the margin charged by a financing institution is related to its volume. Small volume, larger margin; large volume, smaller margin. This structure is inverted in the cooperative credit structure with NABARD itself enjoying the largest margin, followed by the State Cooperative Banks, primary cooperative which borrows at 10 per cent and lends at 12 per cent. A number of eminent economists including Dr.Khusro have studied this system and pointed out that it is upside down. To date, no change has been made. So the subsidy to the farmer is also and more significantly a subsidy to a system that is paid by the farmers' own cooperatives.

But, we shouldn't be surprised by this. The financial system as a whole is designed to subsidise the urbanite, the worker, and the

Industrial sector at the cost of our rural people. In 1989-90, our primary sector accounted for 66,902 crores, or roughly 34 per cent of our gross domestic product (at 1980-82 prices). Although I don't have the data at hand, I suspect that those engaged in the primary sector were responsible for a roughly equivalent percentage of our gross domestic savings. As on March 31, 1990, total outstanding direct and indirect finance to agriculture came to Rs.16,515 crores, or roughly 13.5 per cent of outstanding bank credit. Quite simply put, our rural sector is making do on the crumbs not only of the national cake, but of what they produce and save as well.

Any discussion of subsidies would be incomplete without mention of the subsidies inherent in our treatment of organised labour generally, and of public sector employees in particular.

Let me share a story with you. A while back a dairy farmer in Kalra district headed quite a commotion from his neighbour's yard. Children were screaming with excitement as a taxi pulled in and then the entire family loaded bags, food and the other requirements of a lengthy trip. The farmer asked his neighbour where they were all going. The answer was that they were headed to the Andaman Islands. How, wondered the farmer, could they afford such a trip? Easy came the reply: the man worked for AMUL and his travel was paid for by his leave travel concession! His holiday was being paid for by the dairy farmer, and by the other 4 lakh members of the cooperative few of whom earned nearly as much as the fortunate tourist. Our farmers have made this country self-sufficient in food grains when, two decades ago, every "expert" said we were on the brink of starvation. Our dairy farmers have raised us not only to self-sufficiency, but to the point where in the next decade we stand poised to be one of the world's major international exporters of dairy products. Our oilseed farmers have saved the nation thousands of crores of rupees simply by raising their productivity and production. In

virtually every area of our agricultural economy, our farmers have literally kept this country alive, fed and clothed. They have done this by and large with their own investment, their own labour, their own ingenuity. And at their own risk.

During the decade beginning in 1980-81 oilseed farmers increased their production by 70 per cent; potato farmers by 57 per cent; sugarcane farmers by 55 per cent; wheat farmers by 50 per cent; cotton farmers by 40 per cent. In many cases this was the result of increased investment in new varieties, fertilizer, pesticides and labour intensive cultivation.

By comparison, between 1980-81 and 1990-91, the public sector also produced a massive increase; employment rose from 150 lakh to 185 lakh persons; Central public sector employees rose from 18.4 to 22.4 lakh persons. Their per capita emoluments went from Rs.14,240 to almost Rs.44,000, at an annual cost of Rs.9,750 crores. Productivity? Rail lines maintained per worker declined. Bank transactions per employee declined. Public sector earnings per employee declined. And yet if the price of a litre of milk goes up by 4 per cent, organised labour shrieks with outrage. What we have created is government of the employee, by the employee and for the employee.

Lest you begin to believe that I have begun to join forces with the World Bank and International Monetary Fund in opposition to subsidies, let me now turn briefly to those venerable institutions and their programme of economic reform.

You might recall the mention I made of fertilizer subsidies. Today, I believe, the World Bank is rather anxious to dismantle these so that we can become "competitive" with fertilizer producers in other parts of the world. I suspect that if we go back a bit in time, we will find that the World Bank along with others recommended that we adopt subsidies in order to encourage use of fertilizer by our

farmers. Now, however, they have discovered God. And God is the "free market". The gospel of the free market includes what its apostles call "comparative advantage", a rather elaborate way of saying, "if we can produce something cheaper than you can, then you should buy it from us and stop making it yourself." And, when they put us under their "macroscope", they find that, alas, we lack comparative advantage in so many things, including oilseeds and possibly even milk.

What the World Bank and IMF economists don't mention, however, is that the comparative advantage is not necessarily one based on productivity, but on the heavy direct and indirect subsidies to agriculture in the advanced agricultural nations. The Organisation for Economic Co-operation and Development (OECD) regularly publishes information on such subsidies. You might be interested to know that in 1991 the dairy farmers of the European Community received what is known as a "Producer Subsidy Equivalent" of ECUs 23.1 billion. That works out to ECUs 204 per tonne of milk, or 69 per cent of the price. In other words, the EEC governments were subsidising their dairy farmers at rates as high or higher than the price our farmers received for milk.

Many of you are probably aware that our nation's worthy creditors believe that we lack the wisdom, experience and skill necessary to manage our own affairs. They are good enough to regularly advise us on how we might better use our resources. The World Bank has turned this into an art form and, from time to time, prepares what it calls a "Country Economic Memorandum". As disciples of such eminent economists as Milton Friedman and Ronald Reagan, the World Bank is committed to "comparative advantage" and is quite hostile to countries like ours subsidising anything. The 1991 Country Economic Memorandum, Volume II is titled "Agriculture Challenged and Opportunities". It's not quite clear whose challenges and whose opportunities that title

refers to, but I have my suspicions. In that tome, after noting that our subsidies for food and agricultural inputs were Rs.135 billion (US \$ 7.6 billion), the authors go on to deplore the "protection" of oilseeds and the 10 per cent (on value added) subsidy on groundnut.

The members of the European Community are also members of the World Bank. In 1991 they spent ECU 3.35 billion in subsidies on oilseeds, or ECU 259 per tonne! That worked out to a Producer Subsidy Equivalent not of 10 per cent, not of 20 per cent not even of 50 per cent it was 67 per cent! The only comparative advantage the EEC oilseed farmer enjoys over his Indian counterpart is the deep pockets of his government!

This seems to be a classical case of "Do what I say, not what I do". Agricultural subsidies, it seems, are fine in Europe and North America, but when exported to Asia and Africa somehow become undesirable, even deplorable.

I would hope that you have recognised that in looking at a subsidy we have to examine both its intention and its consequences. The intention of the milk subsidy for Bombay consumers was to ensure that city's citizens would have enough good quality milk to meet their needs at a price they could afford. Whether that goal was achieved is of course questionable. What is not questionable is that the ready availability of inexpensive imported powder and other dairy commodities was crippling our own dairy industry, ensuring, if you will, that we never did gain a comparative advantage. It was because we recognised that the "side effects" of the subsidy were so pernicious, that when we began Operation Flood I insisted that all dairy commodity imports be canalised through the Indian Dairy Corporation, and that we then insisted that milk that was reconstituted using these commodities be sold at a price that was on par with the price our farmers needed to build their own dairy enterprise.

At an early stage after our independence, subsidies were seen as a way to accelerate development. Our planners seemed to believe that unless we reduced the cost of credit, farmers would not be able to invest in production. That unless we subsidised fertilizer, no farmer would use it. That unless we subsidised technology by creating a vast government-controlled scientific establishment, no research would be done. Unless we created an even faster government-run extension service, no technology would reach our farmers. And, unless we paid for their shares and provided cheap financing, our farmers would never create and run cooperatives.

Regrettably there seems to be rule of human behaviour: If something becomes available at less than the market price, those with power and influence will corner it and then turn round to earn a profit by selling that good at the market price. This is the sad story of much of our subsidisation of agriculture.

Yet, I began by suggesting that there is nothing inherently good, or bad, in subsidies. At times I have found myself bitterly opposing subsidies; at other times I have fought equally vigorously for subsidies. It is not the subsidy itself that is either good or bad, it is the way it is conceived, the way it is used, and the results it produces.

I would argue that there is a need for subsidies, and that there will likely always be a need for subsidies.

There are sections of our population who cannot through no fault of their own afford the basic necessities of life; adequate food, shelter, clothing, medical care, education. The same is true of virtually every nation, no matter how "advanced".

There are national interests first and foremost being food security which may require that direct or indirect subsidies be employed to ensure that our needs are met. Such subsidies are an accepted policy tool

in much of the world, and we need not feel reluctant to be an exception.

Having accepted that there is a need indeed that there are often important reasons for subsidies I would argue that great care should be exercised in their establishment, and even greater ruthlessness should be employed in ending them when they fail to meet their purpose.

In creating a subsidy we must be first quite clear as to the purpose. Subsidised milk may be justifiable if it is to ensure the adequate nutrition of those pregnant and nursing others, and of those children who cannot afford milk. It is not justifiable to subsidise the milk consumed by industrialists, professionals, senior bureaucrats and others whose incomes are sufficient to ensure adequate nutrition.

Once we have clearly specified the purpose, we must carefully choose the ways in which we implement a subsidy. That care must be employed to identify alternatives and to select that which is most likely to deliver the purpose at the least cost to those who must bear the cost.

We must also exercise care in identifying and assessing the adverse affects of a subsidy? If we limit the price of food, do we cripple our farmers, and our agriculture? In providing a subsidy are we creating a new vested interest that will, ultimately, consume the greater portion of the resources invested? Are we incurring what, today, is a minor cost but one which tomorrow is likely to balloon to gigantic proportions?

Last, we must carefully assess whether a subsidy is, in fact, achieving its purpose. If it is not, we must take the bull by the horns and end it, not matter how many pious politicians or bureaucrats argue that we are damaging the interests of the poor. In fact, the louder their howls, the more certain we can be that the subsidy is benefiting not the poor, but the intermediaries.

Let me conclude by offering the opinion that those who argue against subsidies because of their financial cost have missed the point. So too, those who believe that subsidies distort a "free market economy". As I have suggested there are instances when a subsidy is the proper instrument to achieve an important objective. When it is not, its damage is not its cost, or its violation of "free market religious tenets", rather it is when the subsidy is used to strengthen the politico-bureaucratic nexus

that has created the illusion that our nation has limited resources, and those can only be accessed through the beneficent intervention of the "broker". Resources are not created by governments; resources are created by people. The use of subsidies has seduced our people into the belief that it is only government that can offer them salvation. That has been the curse of our nation, for it denies our greatest resource our people, their wisdom, their energy and their courage.

Book Review

**Changes in the Cropping Pattern :
A Case Study of South Arcot District, Tamil Nadu**
Center For Research In Economic and Social Development,
Madras, 1994, pp. 154, Rs.95.

M. Udayakumar

THE book under review tries to understand one of the production augmenting aspect in agriculture, namely, the changes in cropping pattern. It does so through a case study of South Arcot district in Tamil Nadu. Divided into nine chapters, the book studies the factors influencing changes in cropping pattern in the study area over a period of 30 years (1957-58 to 1986-87).

The first chapter details the factors determining cropping pattern and states the objectives of the study. The need for a diversified cropping pattern has been emphasised here. Firstly, the agricultural economy of the state has been dominated by rice with 92 per cent of the irrigated area under this crop in 1986-87. Large-scale cultivation of paddy, a water intensive crop, has been acting as a damper on increased productivity and production. The problem is acute as the state has already been witnessing scarcity of water. Therefore, it suggests a cropping pattern change which aims at economising the use of water and increase productivity per unit of water. Secondly, overemphasis on increasing paddy production so as to attain self reliance has led to the negligence of increasing the production of millets, the poor man's crop. Thirdly, nutritional considerations and the pressing need to save and earn foreign exchange requires the growing of a more commercially rewarding and less water intensive crop such as oilseeds and pulses. Finally, lack of attention in agro processing of fruits and vegetables, has led to marginal importance being assigned to these crops in the cropping pattern.

With increasing demand for vegetables oil, pulses, fruits and vegetables and millets, there has been a steep increase in their prices; and given the resource constraints in the state, the alternative is to enhance production by improving the production technology to meet the growing demand. It has been suggested to initiate a change in the existing crop pattern and the irrigation system for the optimum utilisation of resources.

While the second chapter gives a broad profile of the district in terms of its population size, chief agricultural characteristics like soil, crops, irrigation, land holdings, livestock, agricultural marketing, infrastructure etc., chapter three studies the trend in land utilisation pattern. The trend in rainfall and sources of irrigation, that is the factors influencing crop activities, have been dealt with in chapter four. The cropping system and water use practices and trends and changes in production and productivity over the years are studied in chapter five and six. The impact of price on area and production, relative profitability and the cost-benefit of major crops and the impact of government policies on cropping pattern are analysed in the last three chapters.

While noting the trend in rainfall and irrigation, South Arcot district is well situated to receive rainfall from South-west and North-east monsoons. Similarly, the irrigation potentialities of this district are better compared with many other districts of the state. However, the composition of irrigation sources have showed a marked change.

Dominated by canals and tanks as irrigation sources during 1957-62 period, wells have become the dominant source of irrigation in 1982-87 period.

The area irrigated by wells in absolute terms increased from 51.77 thousand hectares in 1957-62 period to 177.39 thousand hectares in 1982-87. In other words, well irrigation registered a marked growth in area at the rate of 4.19 thousand hectares per year. Relatively speaking, of the total net area irrigated in the district, in 1957-62, well irrigation accounted for about 20 per cent, which has increased to more than 50 per cent in 1982-87. This increase was mainly through the increase in *tube wells* which the district witnessed since the mid 60s.

The significant growth of well irrigation was accompanied by a shift in cropping system. A cropping system dominated by paddy among food crops and groundnut among non-food crops in the early phase of the study period showed a change during the second half of the study period. It shifted from the cultivation of low value crops especially coarse cereals to high value crops such as pulses, sugarcane, gingelly cotton, etc. Moreover, this development increased the productivity gains during the post green revolution era through the seed-fertiliser technology as the new technology required the controlled application of water to realise the productivity gains. The relative increase in the area under sugarcane since the mid-fifties to the present were mainly due to this availability of water in a controlled manner. Moreover, compared to paddy, water requirement and irrigation frequency for sugarcane crop are less and returns from sugarcane crop are more than proportionate to the increase from paddy. Consequently, the paddy area showed a decline since the early 80s. While the scope for bringing additional land under cultivation is almost nil, the next alternative is to increase productivity by optimally using the land and water resources.

However, the study noted that the changes in cropping system are rather slow for such long period of thirty years. This slow change has been mainly due to the capital credit constraints, limited access to information, risk aversion, small farm size, insecure land tenure, insufficient human capital, inadequate and chaotic supply of inputs and inadequate transportation infrastructure.

Although the influence of factors like price, profitability and government policies on cropping pattern changes have been attempted, it is not sufficiently dealt with. For instance, in order to ascertain the influence of price on area and production, the price data has been juxtaposed against area and production. A mere comparison of price data against area or production would not reveal the supply response of farmers. We may note here, a number of studies have used the Nerlovian supply response model to ascertain the farmers acreage response using lagged prices of the same crops and the competing crops along with other variables. Raj Krishna (1963) included relative price, relative yield, irrigation and rainfall as shifter variable to explain the area changes.

Besides, the influence of price on area and production has been worked out using the farm harvest prices at the absolute level without discounting it for any increase in the general price level. Although it has been stated that the price ratios have been worked out, there is no description either on how these ratios have been worked out or any analysis using it. However the graphical presentation of the variables - price, area and production - gives some useful clues to the reader about their behaviour for the reference period.

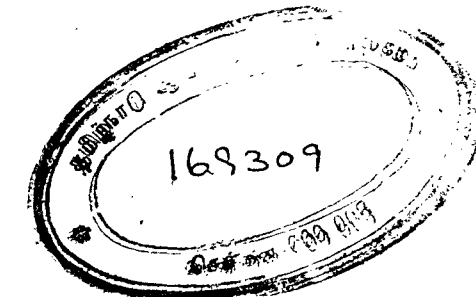
The profitability and cost-benefit ratios of selected crops worked out using the cost of cultivation data available for two years, 1985-87, reveals that sugarcane had an higher cost-benefit ratio which led to increase in the area under this crop. However, it cannot be concluded that allocation of area is mainly

due to this factor without considering the influence of other important factors.

This book suffers from a few crucial shortcomings. First, it studies the impact of each factor on cropping pattern changes in isolation without having an integrated approach. Secondly, the study does not bring out the regional variations within the district. The non-availability of data at a disaggregated level may have acted as a constraint.

However, this could have been overcome by looking at micro-level studies. Thirdly, the study does not give any idea about the status of this district vis-a-vis the state.

Nevertheless the study gives comprehensive data about the agricultural economy of the district for a fairly long period. It also provides a starting point for anyone who want to study cropping pattern changes.



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1 Publications brought out by Messrs Sangam* Publishers : These consist of a series of monographs mainly relating to Rural Development of Tamil Nadu brought out between 1972 & 1980. Detailed list including prices available on request from the Programme Coordinator of MIDS. Orders may be placed with Sangam Publishers, 11, Sunkurama Chetty Street, Madras-600 001 for these.

- 2 **Cyclostyled Publications :** These consist of Working Papers, Digest Series, Data Series, Popular Series, Interns Reports and Offprint Series brought out since 1978. Detailed list available on request from the Programme Coordinator of MIDS.

- a) *A Manual on Sources of Data on Tamil Nadu Economy* (1979) published by MIDS, pp. 92, priced at Rs. 10/- per copy and Rs. 6.50/- for bonafide research scholars.
- b) *Area Studies Bibliography Tamil Nadu* (1984) published by MIDS, pp 226, Rs. 30/- for paper cover and Rs. 40/- for bound volume.
- c) *Social Science Research in South Indian Universities—Listing and Review of Ph D. Dissertations* (1989) Published by MIDS and ICSSR, SRC, pp. 260, Rs. 20/-

a), b) and c) obtainable from the Programme Coordinator of MIDS.

- a) *Poverty — An Interdisciplinary Approach* edited by B. Sarveswara Rao and V. N. Deshpande (1982) & published for MIDS by M/s Somaiya Publishers Pvt. Ltd., Bombay, pp. 296, Rs. 125/-
- b) *Guide to Research in Economics*, edited by C.T. Kurien (second edition) (1985) & Published for MIDS by M/s. Rainbow Publishers, Coimbatore, pp. 390, Rs. 100/-
- c) *Some thoughts on the Seventh Plan* by Dr. Malcolm S. Adiseshiah (1985) and published for MIDS by M/s. Dialogue Publishers, New Delhi, pp. 136, Rs. 70/-
- d) *Shaping National Events* by Dr. Malcolm S. Adiseshiah (1985) and published for MIDS by M/s Dialogue Publishers, New Delhi, pp. 335, Rs. 180/-
- e) *Tamil Nadu Economy : Performance and Issues* by MIDS (1988) and Published for MIDS by Oxford and IBH Publishing Co. Pvt. Ltd., Delhi, Rs. 60/-

* These publications may be ordered directly from the respective publishers.