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**WHAT IS WRONG
WITH INDIAN ECONOMIC
LIFE ?**

DR. V. K. R. V. RAO

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WHAT IS WRONG
WITH
INDIAN ECONOMIC LIFE ?

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PREFACE.

In response to a request from several friends, I am publishing the six talks given by me at the Bombay Broadcasting House on "What is wrong with Indian Economic Life?" I am thankful to the authorities of the All India Radio Station, Bombay, for permitting me to publish these talks. I have added an epilogue clarifying some of the points contained in the final talk.

I must point out that these talks were designed exclusively for laymen and have been planned accordingly.

V. K. R. V. RAO.

Bombay,
20th October, 1938.

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TALK FIRST

INTRODUCTORY

CHAPTER I.

INTRODUCTORY

WHAT is wrong with Indian economic life? Some of you may ask me—why are you assuming that something is wrong with our economic life? Should not you first prove your assumption before you start explaining anything? And in any case, what is this economic life that you are going to talk about? I think these would be perfectly fair questions and I had best begin by attempting to answer them. By economic life, I mean that aspect of our activity which is concerned with the production, exchange and consumption of wealth. By wealth, I mean the commodities and services which we wish to have but which are not sufficiently abundant to be had free. Now a well-organised economic life would be one where the resources of the community in the matter of men and material are properly

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combined, so that the maximum possible output is produced, things produced are so distributed as to result in satisfaction to everybody and the maximum satisfaction to all, and things produced and distributed are consumed in such a manner as to occasion the minimum possible waste. That would represent an economic life about which there was nothing wrong. Can you now say there is nothing wrong with Indian economic life? It needs no expert knowledge of Indian economic conditions to give a most emphatic denial to any such statement. There is something very wrong with Indian economic life; and though the truth of this statement needs no elaborate proof, I shall draw your attention to a few salient features of our economic life which will effectively illustrate my contention. Our average income per head per year has been variously estimated by officials and non-officials, but no estimate has exceeded the figure of Rs. 115|- and even that was with respect to the boom year 1921-22. I myself estimate it at about Rs. 60|- for the year 1931-32; and as prices and economic conditions have not altered substantially since then, we may apply that figure to current economic conditions. That means a monthly income of

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about Rs. 5/- per head, or an income of less than three annas per day. You can just imagine what this means in terms of real income. Within three annas a day, our countryman has to get his food, his clothing, his house-room, his tobacco, his education, his medical aid, and all the other purchases that make life meaningful. Don't think that is untrue, just because neither your income nor mine is as low as three annas a day. On the contrary, the fact that your and mine income are more reduces the average still further for the vast mass of our countrymen and they have to find all the wherewithals of their life in much less than three annas a day. It is of course impossible for them to do so. And the result is familiar to you all. The average span of an Indian's life does not exceed 25 years; nearly 200 out of every 1000 children that are born do not live to see their first birthday. Milk as an article of consumption is practically unknown among the vast majority of the population; while the available food supply is grossly inadequate even from the point of view of its calorific content, and much more so as far as proteins fats and vitamins are concerned. Deficiency diseases are but too common, and rickets

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and tuberculosis stalk the land. The consumption of cloth per head is as low as 14 yards per year, and nakedness in some measure is a distressingly familiar spectacle. House room exists only in name and whole families have to huddle up, live, eat, drink, smoke and sleep in rooms not exceeding 20 square feet in area. When so low is the supply even of elementary necessities, it needs hardly any mention that luxuries and comforts are simply not known to the average Indian man and woman.

Well, Mr. Listener, I have now a right to start talking about what is wrong with Indian economic life. It would facilitate my exposition, if I were to begin by telling how our people are earning their livelihood, in other words, what are their economic activities? Of the 352 million odd people who inhabit our land, 125 millions or 35.52 per cent were returned in the census of 1931 as being actual workers. Of these, 87 millions or 70 p. c. were following agriculture as their principal occupation, 14 millions or 11 p. c. manufacture, 9 millions or 7 p. c. trade and transport, 2 millions or 1.6% the professions and liberal arts, 2 millions or 1.6 p. c. Public Administration, 3 millions or 2.4 p. c. domestic service and the remaining

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were engaged in what are tersely described as unproductive occupations. You will see that agriculture is our main economic activity; and if there is something wrong with our economic life, it means there must be something wrong with our agriculture. I shall, therefore, first take up the question of Indian agriculture for my talks. I shall then pass on to Indian industry, Indian trade and Indian exchange, following these up with a brief account of the distribution and consumption of economic goods in India. I shall complete the series by venturing to suggest how, whatever is wrong with India's economic life could be set right, and our economic organisation be made to fulfil the ideal functions which I set out for it at the beginning of this talk.

So now, let us pass on to Indian agriculture. Of the 433 million acres of what the Government statistics term 'cultivable land' in India, only 279 million acres or less than 65 per cent of the total area is actually under cultivation. The remaining 154 million acres is described as cultivable waste. I am not sure how much of this area is actually fit to cultivate; but even if half of it were to be worth cultivating and were cultivated, it would mean an increase in our

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agricultural output by more than 25 p. c. That this has not been done and that no special effort has been made by Government to get this area under cultivation is perhaps one reason why our income is so low. Even of the 279 million acres which are cultivated, 51 million acres constitute current fallows and bear no crop. In other words, once in every five years on an average, each acre of cultivated land is left uncultivated. It is true that this practice ensures the continued productivity of the soil, but better manuring and a proper rotation of crops would achieve the same object without having to waste nearly one fifth of the nation's cultivated area every year. Here then is another important cause of our low national income remedying of which would straight-away increase our agricultural output by about 20 per cent.

We do not, then, cultivate all the land we can; and from the land we do cultivate, we waste about a fifth. Perhaps you may say, the efficiency of cultivation on the land actually under plough is so great that it compensates for the waste of area. I am afraid that even that is not true. Do you know that the yield per acre of rice in India is only 1340 lbs. as against 3230 lbs. in

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Japan? that the yield per acre of cotton in India is only 90 lbs. as against 150 lbs. in America and 300 lbs. in Egypt; that the yield per acre of wheat in India is only 700 lbs. as against 1900 lbs. in Great Britain? that the yield per acre of sugar cane in India is only 10 tons as against 40 tons in Java? There is no need to go on with this tragic enumeration. In almost all the important crops which are grown in India, the yield per acre compares most unfavourably with those of other countries. Why is it so?

To begin with, the unit of agricultural business in India is too small for economic exploitation. Nobody would think of building a textile mill with only a hundred spindles nor would he think of making yarn without the necessary cash or credit with which to buy the raw cotton. Nobody again would think of employing a whole time servant if he has not work enough for him to last a whole day; nor finally would any man continue in business if he goes on making losses from year to year. All these things which nobody should do, everybody does in agriculture. The holding is small; it is split into innumerable fragments; there is not work enough for a pair of bullocks on each holding.

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The cultivator has no money to buy manure or to effect improvements in his land; for securing the credit with which to carry on his business, he has to pay interest at exorbitant rates; he goes on making losses; and yet he can't leave his agriculture because outside it, there is no employment for him, and he naturally prefers partial starvation on land to complete starvation outside.

Let me now discuss in somewhat greater detail a few of the more important defects in India's agricultural economy. Take the unit of the agricultural business, what is called the agricultural holding. Experts have estimated that in order to be an economic unit a holding should be of the size of roughly 15 acres. The usual size of the holding is however very much below that figure. In Bombay Presidency, for example, out of 22 lakhs of registered holders of land, 17 lakhs had holdings below 15 acres each; of these more than 10 lakhs had an average holding of less than 2½ acres each! If you actually examine the size of each individual holding you will find that there are a considerable number of holdings below the size even of one acre. Thus in the Atgan village of Surat District, 143 out of 431 or more than 25

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per cent of the holders of land had less than one acre each. In one village in Punjab, the corresponding figure was 63 out of 119 or more than 50 per cent., while in another village in the Lucknow District of the United Provinces, they were 46 out 115 or 40 per cent. of the total number. And in all the other provinces, a similar situation confronts lakhs of Indian cultivators.

Even this small and uneconomic holding which the cultivator possesses is not found in one solid compact block. On the other hand, you find it split into a large number of fragments, each usually separated from the other by considerable distance. Such fragmentation results in an enormous amount of waste—waste of land due to boundaries, waste of animal power due to the need for traversing long distances to get at different parts of one's holding, and waste of animal power due to the same reason. In addition, fragmentation upsets farm economics, making it difficult to treat a farm as one unit with a farm house and all the increased attention and supervision that it implies. All this necessarily means agricultural inefficiency and therefore low output.

The reasons for the subdivision and fragmentation of holdings are many, and

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cannot all receive attention in this brief talk. The advent of cheap machine-made imports destroyed the balance of India's economy; and labour displaced from industries had perforce to resort to agriculture. The growing population added to the difficulty of finding employment. Not finding any avenue in industries or other non-agricultural pursuits, people fell back on agriculture, even though that meant splitting up economic holdings into uneconomic ones. This sub-division was of course facilitated by the Hindu and Muhamedan laws of inheritance which allow equal division of parental property to all sons; but these laws do not constitute the reason for the sub-division. Changing the laws would only result in throwing large unemployed proletariat into the towns, but it would not solve the problem of the low national income. The problem of fragmentation may be solved by legislation. It should be possible to pass a law setting out conditions under which compulsory consolidation of fragmented holdings could be enforced. If a suitable administrative machinery were set up for this purpose and Government undertakes extensive and sustained propaganda on this account, it should not be impossible to solve

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the problem of fragmentation. For solving the problem of subdivision, however, mere legislation will not do. For that, you require industrialisation and the opening up of more opportunities for employment. Only then will younger sons leave the land for trade and industry; and at the same time not claim cash compensation from those whom they leave to cultivate the soil. You will see, therefore, how intimately the different parts of our economic organization are interlinked. In order that we may increase agricultural output, we want our holding to be economic in size. The size of our holdings cannot be increased to an economic level unless non-agricultural occupations offer alternative employment to the excess population on the soil. That means industrialisation. So then, we require industrialisation, not merely directly to increase the national income, but also indirectly to do so by facilitating the formation of larger agricultural holdings and thereby putting cultivation on an economic basis. It would of course be also necessary to enact legislation to secure the future impartibility of economic holdings.

In my next talk, I shall proceed to tackle the other defects in our agricultural economy.

TALK SECOND

AGRICULTURE

CHAPTER II.

AGRICULTURE

IN my last talk, I had drawn your attention to the appallingly low yield of the principal Indian crops as compared with those of other countries; I had pointed out that there are a number of causes to account for this inefficiency; and I had dealt at some length on the evils wrought by the subdivision and fragmentation of agricultural holdings in India. I shall now proceed to deal with the other causes of India's agricultural inefficiency.

To begin with, you all know that business requires finance. In practically every business you can think of, you can't profitably take out something without putting back something in return. Thus, for example, you cannot run a railway engine without replenishing its stock of coal, nor a motor car without renewing its supply of

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petrol. No factory can be run for an indefinite length of time without setting aside from its income enough to provide for its depreciation, and annual repairs. Nor can any increase in its output be possible without your spending more money on it. Finally, you can't expect any increase in the capacity of your plant unless you undertake additional capital investment. What is true of all other business is also true of agriculture. It is true that unlike machinery and other capital plant, land is permanent and does not decay; but this is true only of land in the sense of space and not of land in the sense in which it is understood in agriculture. Agricultural land or land used for cultivation does lose something every time it yields a harvest; and this loss has to be made good by manure containing phosphate or nitrogen as the case may be, depending upon the crop and the soil. Where this is not done, the yield goes on diminishing, and falls far short of what the land can yield. Now let us see what the Indian cultivator does by way of feeding the soil in return for its feeding him. Artificial or chemical manure which is used to such a great extent in western agriculture is conspicuous by its almost complete absence in India.

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Bone-meal, an excellent source of manure, is available in comparatively large quantities in this country; but prejudice on the part of the Hindu cultivator has stood in the way of his using it; and every year, approximately 100,000 tons of bone-meal are being exported to renew the fertility of foreign soils. Oil cakes form another fruitful source of manure; and our country is rich in its output of oilseeds. But unfortunately, the greater portion of our annual output of oilseeds is exported in this form of seed, with the result that its content of cake is not available for the country; and even of the oil cakes that are produced in the country, no less than 250,000 tons are exported every year. There still remains what is known as farmyard manure, i.e. the urine, dung, etc., of live-stock animals. Now, farm-yard manure is reported to be the richest and the best manure that any soil can have; and if all the farm-yard manure available in the country were used for agricultural purposes, it would lead to some improvement in yield. Here again, the cultivator's poverty and his need for cash have led him to make cakes out of cow-dung which he sells as fuel in the neighbouring towns. The result is that land in India gets

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hardly any manure as compared with land abroad. No wonder then that our agricultural output per acre is so much smaller.

Not only does the Indian cultivator not use enough manure, but he hardly spends any money for effecting improvements on his land. Sinking of wells, fencing of fields, underground drainage, building of bunds—these are improvements which he very rarely undertakes. And so the land remains what it was in the days of yore and causes us no surprise, though the sight of a Stephenson engine on a Bombay station would form the subject of glaring headlines in our local newspapers.

Then again, take the technique which is followed by our cultivator. Tractors and reapers there are none; and the old wooden plough driven by a pair of lean and ill fed bullocks is still the rule in our rural economy. It is also well known that the use of seed of better quality results in an increased yield; but the area under such improved seed is not even 10% of the total cultivated acreage in the country.

Now take the human element in Indian agriculture. Our cultivator is mostly illiterate. He cannot read or write. He has of course no knowledge of what is happening

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in the agricultural world, outside his own country. Why outside his country? He does not even know what is happening outside his Taluka; if not outside the village. He travels rarely. There are no farmers' clubs where the art of agriculture is discussed; nor does any Bachelor of Agriculture take his residence in the neighbourhood. And that natural leader of the agricultural community, viz., the big landlord who lives on the land and improves agricultural practice by precept and by example is difficult to find in our country. It will be easier to find our landlords enjoying themselves in the pleasure-laden and rich living towns rather than working on their fields and farms. It is but natural therefore that our illiterate cultivator, unorganized and leaderless as he is, should not show the same efficiency in his occupation as his literate and well organized western competitor.

In addition, our cultivator is laden with debt. The total agricultural debt of India was estimated at Rs. 900 crores in 1929; to-day it must be exceeding that figure by at least 50%. Taken per head or per acre, the debt is not perhaps a cause for much anxiety. But the smallness of the holding and the general poverty of the cultivator makes it

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an intolerable burden; and once in debt, the cultivator never succeeds in getting out of debt. This results in turn in the land getting next mortgaged to the moneylender and the cultivator becomes virtually a serf labouring on the soil for the bare maintenance, the surplus of his produce being garnered by the sawcar. The inevitable consequence is that the cultivator soon loses the incentive to that hard work and vigilant toil without which no farmer on earth can wrest the best from the soil. Here is one more explanation to account for the cultivator's inefficiency.

Then again, absentee landlordism is becoming a growing feature even of the ryotwari areas; and land cultivated by a tenant is never as well cultivated as that cultivated by its owner. This is much more so, when the tenant has no security of tenure, and can be evicted at the landlord's sweet will. The tenant, who has no security of tenure, does not care to invest on the land or even to look after it carefully; and the result is seen in a diminished output from the soil. This alone should provide sufficient justification for a proper tenancy legislation.

There is another very important factor which affects the cultivator's output and

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brings about a smaller yield per acre. You all know how dependent the cultivator is on water for the success of his profession. You also know that in our country we are mostly dependent on rains for this water. There are, it is true, a few million acres which have a more guaranteed water supply due to irrigation; but this does not cover more than 23% of the total area. As far as the rest are concerned, agriculture is largely a case of gambling in rain; and more often than not, it is not so much a gamble as a certain failure of crops. So much so that in each province, there are what are known as the famine districts—where a low agricultural yield is more or less a chronic affair. In our own province, this famine tract comprises more than 1/3 of the total area, consisting of the districts of Sholapur, Bijapur, Ahmadnagar, approximately two-fifths of Nasik, Satara, and Belgaum, one-half of Poona and about two-thirds of Dharwar. Do you now wonder at the low output of our agricultural industry? This failure of the rains not only destroys the crop and makes for a direct reduction of output, but dependence on its uncertainty cuts at the root of the cultivator's incentive and makes of him more a fatalist than a

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self-confident 'entrepreneur'. The shadow of the rain-laden cloud perpetually haunts the cultivator's imagination; and unless his water-supply is guaranteed, it is impossible to think in terms of a certain, if not of a vastly increased, out-put.

Then again, the cultivator has very few extra sources from which to supplement his agricultural income. The dairying industry, which is the age-long adjunct of agriculture, is in a very bad state in India. It is true that the country can boast of a stock of 38 million cows and 15 million she-buffaloes but hardly four out of every 10 cows yield milk beyond the quantity necessary to feed their calves. In fact, I am told that there are places where 90 out of every 100 cows don't yield any milk at all. Even as regards the cows and buffaloes which do yield milk, the quantity available per head per year does not exceed 640 seers, a very poor figure compared to the yield of milch cattle in other countries. The result is that the Indian cultivator's net income from dairying does not come to a very appreciable figure.

The other subsidiary occupations he or his family used to follow such as carting, spinning, tanning, weaving, etc. have all

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been affected by the march of industrial progress and the poor cultivator finds his subsidiary industries vanish one by one before the competition of the machine. His unemployment during the slack season has therefore become very real and further diminished his capacity to spend on his agricultural business.

To sum up, the Indian cultivator does not improve his land; he does not use manure; he follows the old technique; he is illiterate; he is unorganized; laden with debt, he is fast ceasing to be an owner and therefore losing his incentive; and dependence on rain has made him a fatalist. Above all, he is poor, and poverty, especially in the cultivator, has an unwholesome tendency to perpetuate itself. What is to be the remedy?

To my mind, the main responsibility for this sad state of affairs rests on three parties:

1. The state,
2. The landlord,
3. The townsmen, i.e. yourself and myself.

First, and most important is the failure of the State to fulfil its responsibility towards the Indian cultivator. Land revenue

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has long been claimed to be a rent and the State has always claimed to be the supreme landlord. Now in all civilized communities, the landlord has a recognised responsibility. It is his business to improve the land, equip the cultivator, finance his agricultural requirements, and introduce him to new and more efficient methods in his business. The State in India cannot be said to have performed these functions with marked efficiency. Irrigation by wells and tanks has been almost completely neglected, the area under improved seed is not appreciable in quantity and not all the principal crops have had their seed experimented upon; experiments in breeding better cows are going on while the she-buffaloes, the mainstay of Indian milch supply has practically received no attention. Illiteracy is appallingly high, and free and compulsory education still seems a far-off dream. The amount of money spent on agriculture by this greatest of the world's landlords is almost insignificant. I have no desire to proceed with this charge sheet, but, enough has been said to show that the primary cause for the vicious circle of rural India, viz., poverty, inefficiency and poverty, is the Indian State. And until the Governments of the provinces

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aided and financed by the Government of India, undertake a bold and planned rural policy, it would be difficult to increase the Indian cultivator's efficiency.

The private landlord has also his own share of responsibility for India's agricultural inefficiency. He does not stay on the land. He does not invest money on it. He does not conduct experiments; nor does he take pride in seeing either his land or his cattle giving an increased yield. You do not hear of an Indian Bakewell or a Townshend; but you do hear of Indian landlords spending their income from rents in the big cities of India, if not also of the continent of Europe. The Indian landlord has given up his legitimate post of leader of rural India; and unless he resumes it, it is difficult, given the present order of society, to improve the efficiency of our agriculture.

Last but not the least comes our own responsibility. We who live in the towns have profited by the introduction of the machine and the quickened pace of industrial development. And largely, our prosperity has been at the cost of destroying the cultivator's subsidiary industries. We are responsible for increasing the strain of the seasonal unemployment of the Indian:

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cultivator; and therefore of increasing his poverty with its inevitably adverse repercussions on his agricultural efficiency. It should therefore, be our business to give back to the village in some measure what we have taken from it in such abundance. How this should be done, I shall deal with in the concluding talk of this series.

In my next talk, I shall discuss, the problems of Indian industries.

TALK THIRD

INDUSTRIES

CHAPTER III.

INDUSTRIES

I N my two previous talks, I had dealt briefly with the problem of Indian agriculture and indicated what were, in my opinion, the chief factors responsible for its low output. To-night, I propose to tackle the question of Indian industries.

You all know that with the advent of the industrial revolution, leadership in the economic world has passed on to the industrialised nations, and there is generally far more profit to be had out of manufactures than out of agriculture. This is because land being limited in supply is subject to the law of diminishing return. Moreover, agricultural output being in the hands of a larger number of producers and therefore less subject to regulation naturally commands a lower exchange value. In other words, it is difficult to increase agricultural

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output without increasing costs; further a unit of agricultural output is apt to command a lower exchange value as against that of manufactured goods. It is for this reason that the wealth of individual nations is practically commensurate with the extent of their industrialisation; and when we remember that hardly 11 per cent of our working population is returned as engaged in industrial occupations we know one reason why our income per head is as low as less than three annas a day.

Not only is such a small proportion of our population engaged in industrial pursuits but even of those who are so engaged, only 12 per cent are working with the help of machinery or of power. I do not want you to misunderstand this remark. I am certainly not one of those who welcome the machine with open arms into our economic life, nor do I believe that mechanisation alone can solve our economic ills. But the fact remains that a man working with the help of machine is able to produce a far larger quantity than one who works solely with his hands; and what is called capitalistic production is technically far more efficient than handicraft production. Today the majority of our people go without

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sufficient clothing. They have no footwear; they have no proper houses; and of course they can boast of no furniture. Cinemas, radio sets, gramophones—these are urban luxuries which the villager hears of, but rarely experiences. All this means an abnormally low consumption of industrial products in India; and the consumption is small because our industrial production is small. And our industrial production is small, because the majority of our industrial workers have only their bare hands to help them in their production. If only all our handloom weavers were using machinery and power, our output of cloth would be many times larger, and nakedness in any measure would no longer be involuntary on the part of our masses. Similarly, if other industrial workers employed machinery, nobody would be denied footwear, furniture, shelter, light, or any of the comforts which the working class in England enjoys as a matter of course. You will say that England is a very rich country, and her income per head is 15 times our income. But the number of her industrial workers is not even 15 millions; and after all, they are the producers of her wealth. How much more wealth should we be able to

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produce if only we had the same aid of machinery, and of power.

Not only is our consumption of manufactured goods so low, but we do not produce all even of that small quantity which we consume today. And a good part of our demand for manufactured goods is met from abroad. Long ago, the late Mr. Justice Ranade wrote: "This dependency has come to be regarded as a plantation, growing raw produce to be shipped by British agents in British ships, to be worked into fabrics by British skill and capital, and to be exported to the Dependency by British merchants to their corresponding British firms in India and elsewhere." That statement still remains true today with the possible addition of the word "Japanese" at all the places where Mr. Ranade used the word "British". Even in the year of grace 1937-38, we imported 168 crores worth of manufactured goods and exported 81 crores worth of raw materials; and a good part of the imported manufactured goods were merely our own exported raw materials worked up into finished form by foreign industries. When our industries are not able to satisfy even our present limited demand for manufactured goods, it is not

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surprising that our industrial production is not on a scale that would bring our consumption to western levels. What are the reasons for this low industrial output of our country?

Industrial production of any substantial magnitude involves the use of abundant capital, skilled labour and bold but wise entrepreneurship. Raw materials are of course also necessary, but it does not very much matter, if they are not locally available, as they can always be had from abroad. In addition, you require, in these days of economic nationalism and of unequal competition, a strongly sympathetic State, alive to the need for industrial development and willing to do all it can to promote it. Now let us see how far these conditions are satisfied in India.

Take the question of capital first. Countries which have a large income are naturally able to save more; and provided they have the proper machinery to convert the savings into capital, they are able to increase their income, therefore save still more, consequently employ more capital, and thus further increase their income. In fact, what I have put so hypothetically really describes the economic career of the

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western nations. When the people in question are poor, as ours are, the supply of capital turns mainly upon the efficiency of the banking and investment organization. Have we a banking system that reaches every nook and corner of the land and gathers in the savings, however small, of all our people? The miserable answer is No. The number of banking offices in India including branches and agencies is only 1/10th of that in the United Kingdom and 1/7th of that in Japan, though the size of our country and the number of its population is far larger than that of either of these two countries. Further, such even of the savings as are collected by the banking system is not utilized for the purposes of promoting industrial development. Our banking institutions are primarily commercial in type, dealing in short-term credit and they do not regard it as a part of their business to assist in the floatation of new industrial concerns and in many cases to supply even the current financial requirements of our mills and factories. There are no industrial banks in this country; nor has our banking system got any industrial bias. When you remember that both in Germany and Japan—the two latecomers in the indus-

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trial field who succeeded beyond expectations-banks took a most important and intimate part in promoting industrial development, you will surely agree that the absence of a similar attitude on the part of our Indian banks is one sure cause of our slow industrial development.

Let me now pass on to the question of labour. Labour in India is abundant, and has a traditional skill; but it is illiterate and not trained in modern methods. Our educational system, as you all know, has been primarily literary in character, more adopted towards producing clerks and perhaps professors and politicians rather than mechanics, skilled workers or industrialists. Thus the vast majority of the people have received no training at all and the minority who have, have received the wrong training. The natural consequence is that our labour cannot compare in efficiency with labour in the important industrial countries. It is true that the labourer himself is not primarily responsible for his comparative inefficiency; but there is no doubting either that his inefficiency is one of the important causes for our low industrial output.

Then take the question of entrepreneurship in India. In a society run on the basis

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of private enterprise, the entrepreneur is the most important economic figure. It is he who decides what shall be produced and in what quantities. He brings together capital and labour and watches with a lynx eye the cost of production. He does not mind spending, but he wants results. His single minded devotion is given to the cult of efficiency. On his wisdom depends the running of industry; on his boldness the starting of new industries; and on his vision and foresight the pace of industrial progress. How far does the Indian entrepreneur satisfy these requirements?

In India, the promotion and working of industrial concerns is carried on by managing agents. Under this system an individual or group of individuals undertake to run a concern, find the funds for its financial requirements and otherwise, manage its working and policy; in return, the shareholders give them the right of management for an indefinite period, an allowance for office expenses and a share of the profit or more usually, a commission on output or sales, and in some cases, also on purchases. You will notice that, under this system, the managing agents largely replace the Directors in the task of management;

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and in so far as the managing agents have no substantial investment of their own in the concern, the system is open to objection. I am, however, not prepared to condemn outright the system which has, for whatever it is worth, built up the present industrial structure of India. Undoubtedly, the managing agency system makes for a class of specialist entrepreneurs; and it was particularly useful in the days when capital was shy and working funds could not be raised from the shareholders. But if the system is to outlive its original utility, it must give a satisfactory answer to the following questions. Does it provide for the taking in into the managing agency concerns of persons who may have no capital of their own but have experience and expert knowledge of business? Do the Indian managing agents show that single minded devotion to efficiency, which means promotion of the efficient and the deserving, irrespective of their class, colour or caste? Have they evolved a proper system of office recruitment and promotion, or does the dread word nepotism lurk in their chambers? Do they maintain research staffs, always on the look-out for new possibilities and overhauling old ones or do they follow the

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old rule of thumb method, thinking that it is foolish and theoretical to spend money on statistics or research? Do they display the necessary readiness to take risks which alone can make the entrepreneur the dynamic force in economic society or are they content with managing established concerns and existing industries, leaving fresh fields and pastures new to the foreigner to exploit? In one word, do the Indian managing agents really and satisfactorily perform the function of the entrepreneur? I shall leave the question unanswered, for I do not want to impeach a whole class; but there is no doubt that, in spite of all our political and economic limitations, a little more of vision and courage on their part and a greater measure of loyalty even to the strictly capitalistic cult of efficiency would certainly mean a larger industrial output for our nation.

Lastly, what about the State? Has the Indian Government been strongly sympathetic, ready to do all it can to promote industrial development? A full answer to this question would mean a long and tragic recital; suffice it to say that till 1922, Government in India felt themselves unable to offer any help in this direction. Since then,

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they have admitted their interest in industrialising India; a Swadeshi Stores Purchase Policy has been adopted and the principle of discriminating protection now governs the Government's fiscal policy. But the conversion has only been skin-deep. The bulk of Government stores are still purchased from abroad. And in the name of discrimination, the glass industry is denied protection, because soda-ash is not available in India; and the woollen industry is denied protection on an equally flimsy ground. In the name of protecting Indian industries, import duties are reduced on British textiles and preference is given to imports of British steel, British machinery, and of British motor cars; while Indian students find it difficult to get practical training in British factories. Government claims the sole responsibility, as the executive, of determining Indian fiscal policy, in spite of the so-called fiscal autonomy convention. Not only is the policy of protection thus applied in a slow and halting manner, but behind the tariff wall, giant foreign concerns are erecting their factories, and threatening to wipe out the financially and technically less equipped Indian concerns, and the chances of an Indian industrialised India are daily reced-

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ing. What is the good of going on like this, detailing acts of omission and of commission on the part of the Government of India? The simple fact is that our Government is not a national Government. It has not and it is not playing that part in promoting our industrial development which the German Government did in Germany, and the Japanese Government did in Japan. And unless that is done, there is not much hope of effecting a substantial increase in our industrial output.

To sum up, there is a great deal which is wrong with Indian industries. Too small a proportion of the working population is engaged in industries; and even that small number has but little aid of machinery and mechanical power. Capital is not abundant. Such of it as there is not properly gathered and even that which finds its way to the banks is not used for industrial development. Labour is not skilled. The entrepreneur is conservative, disinclined to take risks and does not render single minded devotion to efficiency. Government are not actively and consciously promoting Indian industries. There is no national or planned policy of industrial development. The result of all this is a low industrial output and conse-

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quently our national income is also low. The question of remedy, I shall take in my concluding talk.

In my next talk, I propose to deal with the question of Indian Currency and Finance.

TALK FOURTH

INDIAN CURRENCY & FINANCE

CHAPTER IV.

INDIAN CURRENCY & FINANCE

CURRENCY or Money as you all know, is not wealth in itself; it is only the token or counter which facilitates the exchange of goods for goods and of goods for service. But since all prices, wages, contracts, loans and other economic undertakings are in terms of this token, it is highly important that (1) people should have confidence in the reliability of this token, (2) that its supply should be elastic i.e., its quantity should easily and automatically increase with every increase in the nation's economic activity. Further, since different countries have different tokens, a certain statutory relationship is established between our country's currency and that of other countries; This is called its exchange value. This exchange value can be altered by Government; and in fact the power to do so.

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is an important instrument for defending the economic life of the country against adverse influences originating abroad. Let us now inquire how far our Indian currency satisfies these three desiderata of a good currency system.

To begin with, does our currency command public confidence? Put in this way, the answer has of course to be in the affirmative; otherwise we must expect to find people racing with each other to get rid of their rupees and you all know that they are doing nothing of the sort. But the question does not merit such an obvious answer. Ultimately, the fact cannot be denied that the rupee is a token coin and contains only 165 grains of silver which means at its present market rate less than $7\frac{1}{2}$ annas; and this is well known to the public. As a consequence, a large number of people prefer to keep their savings in gold rather than in banks where the unit of account is the rupee. This in turn means that a good part of the savings of the people do not get invested and capital, which is so necessary for the development of Indian agriculture and industry, becomes difficult to obtain. In fact, this defect in our currency system had already been recognized

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by the Hilton Young Commission on Indian Currency and Finance, and that Commission has recommended that Government should legally be made liable to give gold in return for rupees at the rate of nearly 8.5 grains of gold per rupee; and further that gold cash certificates of small denominations should be issued which could be subscribed to in gold and redeemed in gold or rupees at the holder's option. Unfortunately, neither of these recommendations of the Royal Commission have been carried out. The result is that our currency system still lacks that perfect confidence in its soundness, which comes from the knowledge that 100 per cent real value can be had in return for the token coin; and without that confidence, the hoarding habit together with its adverse effects on the supply of capital in India will undoubtedly tend to persist.

Then take the question of elasticity. Particularly in a country like ours where the banking habit is not widespread and note-currency rather than cheque currency forms the principal means for settling monetary transactions, it is essential that our note issue should be capable of expansion with increasing internal trade and productive activity. But there is no provision for such

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automatic expansion in our currency machinery. The only way in which a private individual could increase the supply of money is to sell sterling to the Reserve Bank and obtain rupees in exchange; but sterling can be had by him only if he exports his output, or sells his assets abroad. In other words, the only way in which the expansion of our currency could be induced by the public is by an increase in our export trade. If, however, there were an increase only in our internal trade—and after all our internal trade is quantitatively far more important than our export trade—there is no way of automatically inducing an increase in the supply of currency. At least, in the old Imperial Bank of India Act, there was a provision for the issue of emergency currency to the tune of 12 crores against internal trade bills; even that provision has now disappeared from the statute book. It is clear therefore that while our currency system possesses the element of elasticity with reference to the financial requirements of our foreign trade, it cannot be said to do so with regard to more important requirements of our internal trade.

As for the third factor I mentioned, viz. power to alter the exchange value of our

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currency, we just do not have it. The exchange value of the Indian rupee or the ratio as it is popularly known, cannot be altered by the Indian legislature without the specific sanction of the Governor General. Don't misunderstand my statement. I am not advocating—at any rate not from this platform—any specific alteration in our existing ratio. I am just drawing your attention to the fact that one of the most potent defensive weapons in the armoury of international economic warfare is laid away in the lumber room, as far as our country is concerned. To illustrate what I mean, I will just indicate briefly the kind of things we can do, if only our currency had a flexible exchange value. First of all, a flexible exchange value means that our internal prices and therefore our internal economic activity are not at the mercy of slumps originating abroad. If a slump began in America and prices fell, and if we had a fixed exchange value for the rupee, then it stands to reason that our prices must also fall; and that would mean contraction of currency and a slackening of our economic activity which may not be justified by internal conditions. Secondly, if our Government wants to engineer a rise in domestic prices because

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of the prevalent agricultural distress, it cannot do so. If the exchange value of the rupee is to be a fixed affair, then prices in India cannot rise unless prices in America or Great Britain also rise; and we have no power over the movement of prices in those two countries. If, on the other hand, we have a flexible exchange value for the rupee, our Government could initiate a rise in Indian prices without having to wait on President Roosevelt; and more important, it can prevent our domestic prices from collapsing with a fall in prices abroad. Under the circumstances I hope you agree that a flexible exchange value makes for a more elastic currency and one more adapted to internal monetary requirements; that element of flexibility is absent in the exchange value of the Indian rupee.

To sum up my views regarding what is wrong with Indian Currency—our currency does not command universal confidence in the country with the result that the hoarding habit still remains a menace to our economic development. Our currency does not possess elasticity as far as the financial requirements of our internal trade are concerned with the result that trade and industry catering for the domestic market does not

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get that assistance from the currency machinery which its rapid development requires. And finally, the exchange value of the rupee lacks flexibility with the result that our price system and therefore our entire economic life is exposed to all the storms and stresses of slumps in America and elsewhere and our Government finds itself unable to initiate any price policy which is adapted exclusively to our internal requirements.

I shall now go on to touch very briefly on what is wrong with our public finance. A sound system of public finance requires that taxes are taken from those who can afford to pay; and expenditure is incurred on those who are not able to spend on themselves in matters which go to make a man a good citizen and an efficient producer. In fact, this kind of expenditure can be described as productive expenditure and is particularly essential for developing the efficiency of a poor country. To quote Sir Walter Layton, who acted as Financial Assessor to the Simon Commission, "wise expenditure on social services and particularly on health and education should be remunerative in the sense of increasing the wealth-producing power and therefore, the

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taxable capacity of a country" Judged by these tests, I am afraid that our Indian public finance cannot be said to have been of great aid in increasing the nation's output. Thus, e.g., in the year 1929, out of a total expenditure of Rs. 5,402 per 1,000 persons, no less than Rs. 4,210 or more than 80 per cent was spent on defence and the maintenance of law and order which are, economically speaking, unproductive services; while expenditure on socially beneficial and economically productive services like education, medical relief, etc., was not even 20 per cent of the total. Thus, I am quoting from Sir Walter Layton, "an unusually small proportion of the revenue raised is used in services which are of direct benefit in raising the status of the masses of the people." Indeed, the dominance of this economically unproductive expenditure in the financial system of a country that essentially requires the dominance of productive expenditure can be reasonably described as one of the chief causes of Indian poverty.

In all fairness, however, I must point out that expenditure on defence and law and order—what I have called the economically unproductive services—is incurred in discharge of the essential functions of

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Government; and such expenditure always tends to form a larger proportion of the budgets of poor countries. At the same time, the poorer the country, the greater is the need for Government to spend more on the economically productive services. The situation therefore requires that the greatest scrutiny is exercised over unproductive expenditure and not one pie more is spent on defence and general administration than is absolutely necessary. At the same time, all available sums should be spent on the nation building departments. Judged by this criterion, our system of public finance is exposed to considerable criticism. It is notorious that our expenditure on defence is out of proportion to Indian needs, and the Indian Army has considerable Imperial responsibilities. In fact, the Government of India themselves are trying to get the British Government to bear their legitimate share of this expenditure. Moreover, a considerable portion of our Army is British in personnel, not on military but on political grounds; and this leads to a greater expenditure, as one British soldier costs nearly four times as much as an Indian soldier, while a British officer costs more than five times his Indian confrere. Under the

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circumstances, it is clear that there is room for reduction in our military expenditure without impairing the efficiency of the Indian Army. As regards civil expenditure, you all know that the salary scales of our Government servants, particularly of the protected services, are out of all proportion, with the taxable capacity of the people and could undergo a reasonable reduction without affecting their efficiency. I suggest therefore that our public finance requires a redistribution of expenditure in favour of the socially beneficial, and economically productive services; and that funds for this purpose may be obtained by reducing our existing expenditure on the essential but unproductive services of defence and law and order.

To sum up, currency and public finance are two branches of our economic life which are completely under the control of Government; and yet all is not right with them. Now it should be much more easy to set right activities controlled by Government than those controlled by a multitude of unorganised individuals. It is therefore for the people of India whom ultimately the Government represents, to see that everything is made alright with Indian Currency and public finance.

TALK FIFTH

DISTRIBUTION & CONSUMPTION

CHAPTER V.

DISTRIBUTION & CONSUMPTION

WE have hitherto been discussing problems of production in India. Tonight, I propose to raise questions of a somewhat different kind. Given our existing production, is it properly distributed? And is it properly consumed? Under the head of proper distribution, there are three issues to be discussed; Is there an unequal distribution of income in India? Does this inequality conceal rent elements in certain incomes? And is this inequality the principal cause of the poverty of our masses? By proper consumption, I mean a consumption that results in drawing a maximum utility content out of a given income.

I shall begin with distribution. The principal source for obtaining an idea about the distribution of incomes in any country

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is its income tax statistics; and as our income-tax is levied only on non-agricultural income, I shall begin by taking that section of our population which lives on non-agricultural occupations.

According to the Census of 1931, there were 280 lakhs of persons who were returned as working in non-agricultural occupations such as industry, trade, Public Administration, etc. etc. Of these persons the number of persons who had an income of more than Rs. 1,000 a year or a little more than Rs.83|- per month were only 5½ lakhs. In other words, more than 98% of the total number of workers in non-agricultural occupations had an income of less than Rs.83|- per month. The average income of those 274½ lakhs of workers came to less than Rs.20|-per month. Even in this low income class, there are further inequalities in distribution, a large number of unskilled workers and domestic servants getting an income of less than Rs. 6 to Rs.7 a month, the more skilled artisans, the clerical class and the small merchant class getting an average income of Rs.30|- a month. The system of distribution therefore is inclined in the shape of a pyramid. The poorest are the largest in number and the richest are the fewest; and the gap

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between the two classes is enormous, the lowest income of a worker coming down to Rs.6 per month, the highest exceeding Rs. 50,000 per month. The distributive system shows the same pyramid form, even when you move higher up and examine the condition of non-agricultural workers whose income exceeds Rs.165 per month and who are the comparatively well-to-do people of the country. Thus, for example, 38% of the number of this restricted class could claim only 17% of the total income, while a little more than 1% were in possession of as much as 10% of the total income. There is no doubt, then, that as far as non-agricultural workers are concerned, there is a great deal of inequality in incomes and small portions of the total number hold large portions of the total income.

When we turn to agricultural workers, we find a similar situation. It is difficult to advance any reliable figures that will cover the whole of the agricultural population, as there is no income tax on agricultural income. However, some indications of distribution of income among agricultural workers are available for the province of Bombay. Out of 22 lakhs of registered holders of lands in the Province, no less than

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10 lakhs had holdings of below 5 acres in size, and the total area held by them amounted only to 25 lakhs of acres; in other words, 48% of the landholders of the Province had between them only 9% of the total cultivated land in the Province. As against this, less than 1% of the landholders had between them 16% of the total land. Unequal distribution therefore exists in vivid measure also among landholders. In addition, there are in the Province 23 lakhs of agricultural labourers, most of whose incomes are smaller than that of the smallest landholder.

For the Province of Madras, statistics of *pattas* or registered holdings are available, according to the amount of land revenue paid on each patta. If we assume that normally speaking a patta represents one landholder, and if we confine ourselves to the statistics of single pattas, we find that 19% of the total number of landholders in that province had only 2.4% of the total area amongst them; while 1.2 per cent of the number owned as much as 17% of the total area. The problem of unequal distribution among the agricultural classes is thus in evidence in Madras as well. Similar conditions prevail among the agricultural population of the remaining provinces. Thus

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both amongst agricultural and non-agricultural workers, the existence of inequality of incomes cannot be denied, with the difference that amongst the latter, there are a few more at the top and they are higher up in the income ladder.

The second question I raised was—does this inequality conceal any element of rent? I am using the word 'rent' in the sense of an income which is the result of privilege, position or monopoly and has no economic justification. Thus, for example, if A is getting in a particular position a pay which is higher than what he will get in another job, the difference is the rent element in his income. Similarly, if B is getting an income without contributing any productive effort in return, then there is an element in his income which can suffer diminution without affecting the economy of the country. There can be no doubt that large numbers of income-holders in our country have considerable rent elements in their income. Take for example the members of the superior services in India. Can it be said that they would get the same pay in alternative occupations? To put the same question in a different way, will a reduction in their salary scale lead either to a large number

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of resignations or to a substantial diminution in the number of aspirants to the Service? The answers are obvious; and reveal the rent element. In fact, this rent element exists in the salaries of most of the higher placed among Government servants in India and constitutes the principal argument for a downward revision of salary scales. Then again, there are the absentee landlords who obtain an income from land by fact of mere ownership and do no work. In this very province, there are 460,000 landholders owning 82 lakhs of acres or more than 30% of the total cultivated area, without taking any part, manual or supervisory, in the cultivation of the soil. Even among the captains of industry and commerce, it is certain that after a limit, income and effort have no relation; and a diminution of income will not result in any adverse reactions on the output of their effort. The answer to my second question is therefore in the affirmative; there is a large rent element in our higher incomes and this explains to some extent the unequal income structure.

The third question raised was—Is this inequality the principal cause of the poverty of the masses? In other words, is it inequality

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of distribution and not under-production which explains the poverty of the people. Put in this way, it is clear that inequality of distribution does not constitute the principal cause of our poverty. Our production itself is low; and in fact, even if our entire national income were to be distributed in an equal manner, it will not mean an income of more than Rs.5/- per month per head. This does not mean that unequal distribution does not exist or that it does not constitute a problem. I have already shown the existence of inequality in our income structure and there is no doubt that its existence aggravates the poverty of the masses. In addition, it causes psychological and political reactions of a kind not conducive to an orderly and extensive economic development of the country. The problem of unequal incomes therefore, does require handling in any scheme of economic reform in India.

Not only is our production low and distribution unequal, but our consumption of even of the little income we have is not on the most economic and profitable lines. It is well known that a good part of this scanty income of the poorer classes in the country is spent on liquor, which cannot certainly be considered as healthy consumption, whereas

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the per capita consumption of milk of the masses of workers, particularly in the urban areas, is practically negligible. Moreover, the recent changes in our dietary habits are in an unhealthy direction. Thus, for example, hand-pounded rice which contains a much larger proportion of protein, so essential for body building, has almost completely given way before the mill pounded rice which gives but little nourishment. Similarly, the use of *gul* is being superseded by that of white sugar. Further, scientific investigation on the problems of nutrition has demonstrated abundantly, that the diets of the Indian peoples, particularly in the south, are woefully deficient in the proteins and in the essential vitamins. There is no doubt that expenditure in our country is not scientific and that the application of planning methods to our domestic budgets, particularly of those of us who are poor, will result in our getting a large quantum of utility from our incomes than we obtain now. Thus, there is much that is wrong with our consumption, which requires remedying.

To sum up, incomes are unequally distributed in our country both among agricultural and non-agricultural classes, and a small proportion of the population in each class

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owns a much larger proportion of the total income, while the condition of the masses like agricultural workers, small cultivators, unskilled workers in towns and workers in cottage industries, is miserable beyond description. Even the very small income which is left with the masses is consumed in such a manner that the maximum possible health and utility content of that income does not become available to them. Both our distribution and consumption therefore require a great deal of reform. I shall take up this problem as also the larger one of our productive system in my next and final talk.

TALK SIXTH

THE NEED FOR AN ECONOMIC POLICY

CHAPTER VI.

THE NEED FOR AN ECONOMIC POLICY

I HAVE hitherto been talking about what is wrong with Indian economic life. I have told you that in India, production is low, distribution unequal and consumption uneconomic. It is but fair therefore that I should now try to indicate to you what, in my opinion, are the measures that will set things right and make it possible for our masses to get at least the minimum income that will make for civic efficiency.

I shall begin by repeating what I have already said so often—our economic problem is primarily one of underproduction. Our output of agricultural as well as of manufactured commodities is very low; and unless our production is at least doubled or trebled, it is simply impossible to think of raising the standard of life of the vast majority of the country. How this is to be done is obviously

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a very difficult question; and I certainly cannot do it justice in this brief talk. However, I propose to think aloud and touch briefly on some aspects of this vast problem.

It is my conviction that, as far as our country is concerned, Government must take the lead in promoting economic development and make itself responsible for increasing the nation's production. What is required is a planned policy of economic development on the part of the State in India and resolute firmness in putting the plan into action. I would have the planning under two heads: increase in the output of agricultural commodities and increase in the output of manufactured commodities.

For increase in agricultural output, several things are necessary. Agricultural holdings should be larger in size; land should be better ploughed; seed of better quality should be sown and a greater quantity of manure should be used. Above all, the cultivator should feel a strong and sustained incentive in increasing agricultural output. I am afraid it is quite beyond the power of the individual cultivator to achieve any of these objectives. As I have already pointed out, there are a larger number of holdings in the country below 5 acres in size; and no

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scheme for voluntary consolidation or of future impartibility of holdings can increase their average size. Even if, by some method, it was possible to increase their average size, it will not result in increased yield unless some capital is sunk in the land. Better ploughing, better seed, more manure—all mean more money; and the cultivator has none. What is the good of demonstrating better methods before him if he has not the means to adopt them? I suggest therefore that as far as the vast majority of our cultivators is concerned, radical measures are necessary to increase the output of their land; and the State must take a much more prominent part in the industry of agriculture than it has done so far. Thus, it would be necessary to classify all cultivators in the country under two heads those whose holdings are sufficiently large and those whose holdings are not. It is with the latter that the State is primarily concerned. With regard to them, Government must assume the role of the benevolent landlord. First, it must promote the formation of cooperative or collective farms where a number of small holders can join their holdings together and constitute a holding of economic size. Then the State should finance the agricultural requirements of these cooperative farms. I

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do not mean, however, that the State should give them money. What it should do is to supply them with better seeds which alone should be sown in those areas. The State again should supply them with improved agricultural implements and also, improved breed of draught cattle or supply them with sufficient food for the cattle so as to enable them to become strong enough to pull the new ploughs. The required quantity of manure should also be supplied by the State. In return for all this, the State should share the crop with the holders of the cooperative farms; the proportion of the crop that it should take is a matter for more detailed examination. I would also suggest that the State should offer to dispose off that part of the cultivator's own share of the crop which he wants to sell. State's own share of the crop Government must itself dispose off in the open market. As a preliminary to this arrangement, it would also be necessary to relieve the cultivator from his burden of debt, and also give him security of tenure where he is a tenant. For this purpose, tenancy legislation should be enacted by which tenants will be guaranteed complete security of tenure; the landlords being given a share of the crop in lieu of rent. This share again should be

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fixed after detailed discussion. The landlord should also be given the same privilege as the tenant of asking the State to dispose off his share of the crop. Similarly, the creditors of the agricultural classes should be given a share of the crop. Before this share is determined, however, it will be necessary to inquire into the amount of debt, and scale them down according to the principles already embodied in the debt legislation of a number of provinces. The moneylenders also should be given the privilege of asking the State to dispose off their share of the crop. Let me put the whole thing in this brief way. I want the State to function as a landlord, in so far as these small holders of land are concerned. This does not mean any kind of expropriation. Landlords whose holdings are large can remain completely out of the scheme; and small holders who do not want the facilities afforded by the scheme may also remain out. It should be applied in the first instance only to the small holders who are prepared to come in voluntarily into the scheme. In case nobody is willing to come forward voluntarily to participate in the scheme, the advantages arising to them by doing so may be demonstrated in the first instance by the State itself establishing such cooperative farms on land

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hitherto not cultivated and running it with the help of agricultural labourers or unemployed graduates or others who are prepared to work on the basis described above. As far as the larger landholders are concerned, the State need not bother about such of them as are sufficiently rich to meet their agricultural requirements. To those landlords, however, whose holdings are large, but whose financial position is not strong, the state should offer the same concessions as are given to the small holders in return for a share of the crop; for tenants, in general, complete security of tenure should be provided, rent being fixed in terms of a share of the produce. If that procedure is not acceptable to the majority of landlords, then rent should be fixed as a given quantity of the crop which the tenant is growing, the landlord being given the right to demand from him the money-value of that quantity at current rates as his rent. Some of you may regard the schemes I have advanced as very radical and others may demur to the very large extension of the sphere of the State which my plan would involve. But I shall ask you to remember that the plan I am suggesting does not involve compulsion. And there is nothing to which anybody can object in extending the sphere of the State.

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if we do so voluntarily. Moreover, the condition of the agricultural industry is so disturbing that unless responsibility is centralised in some such manner, and gigantic resources such as a State alone can provide are placed at the disposal of Indian agriculture, it would be almost impossible to effect any substantial increase in our agricultural output. I would therefore commend you not to reject my scheme as unpractical without a detailed examination.

Let me now turn to the output of manufactured commodities in India. Here again, the State should take the lead. As far as the larger industries are concerned, however, I do not think that at the present stage, the State should take the responsibility of initiating new concerns. What it must do is to make things as attractive as possible for new ventures to be started in the country itself. This it can only do by adopting a policy of unqualified and determined protection. I would suggest that except in cases to be specified, a high general basic tariff should be levied on all imports, and a guarantee should be given that this policy is to be the permanent policy of the State; only then will Indian capital resort to new industries and

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build up behind the tariff wall manufacturing establishments that will replace imports by indigenous output. It would of course be necessary to see that such a tariff does not fall on raw materials and also as far as possible on articles of general consumption. The hesitant policy which is followed of discriminating protection, the elaborate inquiries by the Tariff Board, long delays before the announcement of Government decisions on Tariff Board reports, and several cases of non-acceptance of the Tariff Board's recommendations by the Government of India, - all these have certainly not tended to increase the confidence of the Indian capitalists; and unless the Indian capitalist is confident that he will make a good profit, he is not going to invest his capital. Hence it is that I stress the need for a policy of determined and unqualified protection. It would also be desirable for the Government unequivocally to stick to a Swadeshi Stores Purchase Policy even if that might involve the payment of non-competitive prices for Indian products in the first instance. In addition, the State must make an active use of currency policy in order to give protection to Indian industries, enhance the purchasing power of Indian cultivators and thus further promote

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the country's industrial development. Finally, Railways must not be regarded merely as a commercial concern which is only interested in transporting larger quantities of goods irrespective of whether those are foreign or Indian. On the other hand, Railways must be regarded as an instrument for facilitating and promoting industrial development and railway rates should be regulated from that point of view. In the field of large industries, then, I suggest that the State must leave, for the time being at any rate, the task of increased production to the private capitalist, the only part it should play being to make things easy for him to do so. As far as the smaller industries are concerned, however, it is my personal opinion that the State should undertake the same kind of responsibility towards them as I have suggested it should undertake in regard to the smaller cultivators. A similar kind of organisation may be established where the artisans would, so to speak, become co-sharers with the State, the State supplying them with the raw material and taking from them the finished product, the artisan obtaining in return a guaranteed income. This scheme need only be voluntary. It would also be necessary for State to regulate the position of large and small

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industries in the national economy.

Besides the details mentioned above, the State must undertake measures to increase the supply of capital and to improve the efficiency of labour. For this purpose, a very wide extension of the banking system is necessary and also a scheme for free and compulsory education. I may add that any such scheme of education must have a definitely vocational bias, if its object is to be the acquisition of skill by Indian labour and the consequent improvement of its efficiency.

I have so far dealt with what the State can do in the realm of increasing production. It is, also essential that the State should strive for a more equitable distribution and a more healthy consumption. If these objects are to be achieved, it would be necessary to provide for vast expenditure on the social services such as unemployment insurance, maternity benefits, old-age pensions, free medical relief, etc., etc.; this expenditure can be financed by taxation levied on those persons in the community who have substantial incomes. In addition, the law against adulteration of food articles should be tightened up and provision should be made for free supply of milk to school children, for free medical examination of all children in the

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community and of compulsory physical training for them. If the State undertakes the kind of things I have described above, I think it will be possible to set right the many things which have gone wrong with the fabric of our economic life, and it would be possible for the blot of poverty to be removed from the Indian people.

In the meanwhile, however, it is not necessary to leave everything to the State. In fact, it would take some time before the State would be willing even to consider—let alone accept—the kind of plan I have outlined above. It is all the more necessary therefore for the private individual to do whatever he can to promote the economic development of this country. There are several things he can do. He can make up his mind to use only Indian articles wherever they are available in preference to foreign ones. He can try and economise in the consumption of foreign articles if no Indian substitute can be had by him at reasonable prices. He can offer his voluntary services to the State for the liquidation of adult illiteracy or help in rural reconstruction. In addition, he wants to be of direct service to the poverty stricken masses of India, he can take to the use of *khaddar* and patronise

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the products of India's village industries. These are some of the ways in which every one of us can promote the nation's economic development. At the same time, we must do all we can to persuade the State to undertake a scheme of vast and comprehensive planning in the economic field. Only thus can we rise from poverty to a state of well-being.

EPILOGUE
AN ECONOMIC POLICY FOR INDIA

CHAPTER VII.

AN EPILOGUE ON ECONOMIC POLICY FOR INDIA

(Several friends of mine who had listened to my six talks felt that the subject-matter of my last talk required a more detailed treatment. In response to their suggestions, I add this epilogue on a planned economy for India.)

To bring about a planned increase in the production of wealth in India, action is necessary on the part of three bodies:-

1. The Government of India
2. The Provincial Governments
3. The general public.

What the Government of India can do.

I begin with the Government of India which controls the three most important

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determinants of economic development viz. the tariff policy, the currency policy, and the railway rates policy of the country.

Regarding the tariff, I have already pointed out that the existing policy of discriminating protection will not do. Discriminating protection requires that, in order to obtain protection, the industry must obtain its raw materials from India and have the market for its finished products in India; in addition it must be such that without protection, it either could not come into existence or even if it did it could not survive; further it must be in a position to dispense with protection within a given period. If an industry fulfilled these conditions to the satisfaction of the Tariff Board, the Tariff Board could recommend protection to that industry and define the extent and period of the same. It was then for Government to accept or reject the recommendations of the Board. These conditions have no economic meaning. What on earth is the point of requiring an industry to obtain its raw materials at home, when the most successful textile industries of the world viz. those of Lancashire and of Japan obtain their cotton entirely from abroad? Then again, how can you say that an industry cannot.

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obtain protection unless it can prove that it cannot survive without it? Does this not mean that a capitalist must first sink his capital in an industry, suffer losses and thus prove to the Tariff Board that he cannot survive without protection? And even then, there is always the risk of Government not accepting the Tariff Board's recommendations. Very few capitalists would undertake this kind of venture; and yet unless they do they won't get protection. The whole thing becomes a vicious circle and the pace of our industrial development slackens in consequence. The more sensible thing to do, if you want a rapid industrial development—and without it there can be no substantial increase in our income—is to raise the general tariff. In fact the Indian match industry came into existence behind a high revenue tariff, and I have no doubt that a number of new industries could and will come into existence if there were a high basic tariff. That then is the first thing we should require the Government of India to do. Let there be a high basic tariff, say of at least 25%, on all goods entering the country except raw materials. On manufactured goods which it seems possible, even on a superficial survey, could be substituted by domestic manufacturers,

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the tariff should be at least 50%. On goods where only a higher tariff could bring a local industry into existence, a even higher tariff should be levied. The tariff wall should be kept intact for a sufficiently long period—say at least 10 years. At the end of that period an expert examination can be made and the tariff removed on those imports for which no local substitutes have come into existence. On the rest, the tariff can be retained, lowered or raised according to the requirements of the local industry. Only with such a policy can protection result in a speedy and extensive industrial development.

Then comes the question of currency policy. I have stated that the Government of India must make an active use of currency policy. In plainer language and applying it to current economic conditions in India, this means a demand for a devaluation of the Indian currency. I am not prepared to enter into the question of whether prices and other payments in India have adjusted themselves to 1s. 6d. sterling. In fact I believe that is a question which cannot be answered with any pretension to accuracy. What is obvious, however, is that on the one hand agricultural prices have fallen far

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below the levels they had reached some time after the War, while debt payments, revenue charges and contractual payments on the part of the cultivator have not fallen to anything like the same extent. The result is agricultural distress which the different Provincial Governments are trying to alleviate by legislation. These Governments would be immensely helped in their task if the exchange value of the Indian currency should be reduced from 1s. 6d. sterling to a lower figure. Such reduction would automatically raise the Rupee prices of our exports and by a natural reaction also raise the domestic price level of our agricultural commodities. Thus, the money income of the agriculturists will record a rise. Incidentally that would also give some relief to the very distressing condition in which our small industries find themselves to-day, for these small industries have their main market among the agriculturists and they are first to feel the effect of fluctuations in the cultivators' money income. Such devaluation, moreover, will further supplement the policy of Protection that I have already advocated. All imports will become more costly and the devaluation will in effect be an addition to the basic tariff. And its good

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effect will accrue particularly to the various small industries in the country, which are too scattered and unorganized to obtain special attention at the hands of Government, and which nevertheless give employment to a substantial number of people. Incidentally many of these small industries are feeling the competition of Japanese goods which are helped by the depreciated Yen and devaluation in Indian currency will be one way of counter-acting the effect of this depreciation. I am not prepared to specify the measure of devaluation as I think that is a matter for more careful examination. But there is no doubt that devaluation of the Indian currency will relieve the distress of Indian agriculturists and result in a promotion of both small and large Indian industries.

As regards railway rates, I have pointed out that we must give up the idea of regarding the railway system as a purely commercial proposition. Regarded as a purely commercial proposition, it does not matter to the railways whether they carry foreign goods or Indian goods; and it would also be in their interests to promote centralisation of industries in this country. If, however, the people of the country—who,

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after all are the owners of the railway system and have a right to decide what its policy should be—want that the output of Indian goods must increase and further that a certain extent of decentralisation should be desirable, then it is necessary that the railway rates policy should be remoulded from this point of view. Thus, for example, the principle of lower rates on longer distances should not be applied without qualification, when its result is to bring foreign competition to Indian regions where they otherwise would not have come. Then again it may be desirable to give special concessions on the transport of certain fundamental industrial commodities such as iron, coal, etc. to different district centres in India if the object is to see that in each district there is a proper industrial development. It is not possible to go into more details; after all, much will depend upon the kind of industrial development which our people desire to have. The point I want to emphasise is that just as by means of tariffs and devaluation we can help the promotion of Indian industries, we can similarly do so by proper manipulation of railway rates. There is absolutely nothing wrong in such manipulation. I want the

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myth that railway should be treated as an exclusively commercial proposition to be completely exploded, because it is after all the business of the owners of the Indian railways viz. the Indian people to decide what part they should play in the economic life of the country.

The fourth thing that I should like the Government of India to do is to have a proper scheme of sending apprentices abroad for training in industrial pursuits. It is no good giving one or two scholarships or selecting one or two industries for such patronage. The Government of India should embark on a bold scheme for supplying Indian industry with trained technical men. This can be done by instituting a large number of scholarships for sending Indians abroad for technical training. At the same time they should exercise their influence in seeing that these men get the necessary practical training after the completion of their theoretical studies. Countries to which these scholars may be sent should be the United States of America, England, Germany and Japan.

It is also necessary that the Government of India should purchase all their stores in India. It is true that a Swadeshi

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Stores Purchase Policy is the accepted principle of the Government to-day, but in actual fact, a substantial portion of the purchases of the Government of India are made abroad. Government should immediately undertake technical examination as to why they are not able to make their purchases in this country and see what the difficulties are in the way of those commodities being manufactured in this country itself. I might even go so far as to suggest that the Government should sponsor undertakings which will meet their demand for different commodities particularly for the railway and defence services. It is quite certain that credit and technical assistance will be willingly provided by countries like England and Germany which are already doing so for other countries. In fact, there has been quite a race between Germany and England to assist Turkey in the last few days.

Another activity which the Government of India can profitably undertake would be to appoint Trade Commissioners in all the important markets for Indian goods, as also in all the important suppliers of India's imports. I would say that it is even more important to appoint our Consuls in coun-

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tries which furnish us with cheap articles of import. These men should be asked to make a comprehensive survey of the economic and other conditions of the countries which constitute our principal competitors on the lines of the reports which are furnished to their respective governments by the Trade Commissioners of Great Britain and United States. These reports should be published at a low price and made available to the Indian commercial community. After all, unless our industrialists and commercial men get acquainted with the economic practices and conditions of the principal countries which supply us with our imports, it would not be possible for them to take effective steps to replace those imports by Indian manufactures.

To sum up, the Government of India should adopt a policy of unqualified protection, devalue Indian currency, declare that railway rates policy will be determined by the needs of industrial development in this country and not by purely commercial objectives, institute a large number of technical scholarships for Indians to be sent abroad and make arrangements for their getting the necessary facilities for practical training, sponsor schemes for manufacturing

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in this country itself all the stores purchases they require, especially our railway and defence needs, and finally appoint Trade Commissioners in all the important countries which supply us with imports and require them to prepare comprehensive and elaborate notes on the economic conditions of those countries, and make these reports available to the Indian commercial and industrial communities.

What the Provincial Governments can do.

It will be seen that the bulk of the task of industrialising this country will fall on the Government of India as it is they who control the instruments of industrial development. But the provincial Governments are not entirely helpless in this matter. And if they take co-ordinated action, it will be possible for them also to assist in this work of industrialisation.

Thus, for example, the different provincial Governments can set up a common Stores Purchase organisation and try to see that all their purchases are made in the country itself. Where they find that stores of the necessary quantity or quality are not available, they should not merely fall back

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upon the expedient of making purchases from abroad, but they should undertake in conjunction a technical examination of the difficulties in the way of the manufacture of these commodities in this country. They should also, wherever necessary, themselves sponsor schemes for the manufacture of these commodities. They can take shares in the concerns, they can guarantee them patronage and they can offer them technical assistance. From this point of view, the scheme recently sponsored by Sir M. Visveswarayya for the manufacture of automobiles in this country is a step in the right direction. If only the different Governments undertake to buy their requirements from such a company and also subscribe a part of its capital, the rest would be forthcoming from the public; and a new industry will have come to existence in India. The same method could also be applied to the manufacture of such other commodities as are required by the Provincial Governments.

It should also be the aim of the provincial Governments to have a central institution for industrial research and the object of this body should be to examine technical difficulties which various new

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industries in this country may be faced with. The provincial Government should also make use of their licensing machinery to draw a sharp distinction between shops retailing Indian goods and shops retailing foreign commodities. If this is done, then the public will be given a chance of knowing where to go for Indian commodities. The provincial Government should also set up a machinery for testing the quality of Indian products and giving them certificates, for there is no doubt that there is a great deal of distrust of the quality of Indian products, and if an authoritative examination of the quality of Indian products is provided for, the public will have more confidence and will be better induced to patronise Indian commodities. It will be thus seen that it is possible even for the provincial Governments to contribute their share to the promotion of large scale industries in India.

Their proper sphere, however, is in the realm of small industries and agriculture. In the realm of small industries, the provincial Governments should take steps to see that the small industries get a chance of economic survival. There is a great deal that can be done by the provincial Govern-

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ments by way of technical assistance, organisation, and provision of marketing facilities for the products of small industries. A survey should be made in every province of the precise position of the small industries and a distinction should be drawn between the decaying small industries and the growing small industries. Attempts should be made for easy transference of young labour from the former to the latter. In addition, special attention should be paid to the task of improving the technical, financial, and marketing equipment of the decaying industries so that the decay can be arrested. Under certain circumstances, even a guarantee of market may not be out of place. Where it is found that the decay cannot be arrested under any circumstances, an ameliorative policy should be undertaken by Government and steps taken to provide relief to those who are engaged in such industries. Where new industries on a large-scale come into existence and are likely to threaten unemployment to the existing small-scale and cottage industries, Government should from the very beginning arrange for a proper co-ordination between these two types of industries; provision should be made for seeing that the progress

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of the large industry does not result in distress to the cottage industry. Take for example the recent scheme sponsored by the Government of Bombay for improvement in fishing methods. The idea is that we should develop our deep sea fisheries by introducing power-launches. There is no doubt that it is desirable to supplement our supply of fishing by tapping this unexploited source and thus make fish cheaper for the consuming public; at the same time, however, there is a chance that lower prices may bring about distress to fishermen who use only sailing boats. It will therefore be desirable to see that all employment afforded by the development of deep sea fishing should be provided to fishermen who are already working with sailing boats and that the capital used for exploiting deep sea fisheries should be co-operatively raised from the existing fishermen; finally where there are fishermen using sailing boats who cannot be absorbed in deep sea fishing and whose incomes have fallen a great deal in consequence of the development of the latter, such fishermen should have their standard of living guaranteed by adequate marketing arrangements. A possible arrangement would be, for example, to levy a

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small fee on the sale of cheaper fish and use the proceeds to buy fish from the sailing boat fishermen at prices that would give them a reasonable living. I have only taken this as an example. But there is no doubt that Government will have to arrive at a policy of co-ordination between large and small industries as it is essential that in our zeal for industrialisation we should not repeat the miseries and distress which followed the industrial revolution in western countries. With regard to small industries, therefore, the provincial Governments should determine their place in the provincial economy, co-ordinate their activities with those of the larger industries and by the supply of adequate technical, financial and marketing facilities, enable the small industries to have an economic existence.

The chief field of activity of the provincial Government, however, is really in the realm of agriculture. I have already dealt at some length with this problem in my sixth talk; I have pointed out that while tenancy legislation and debt relief legislation are undoubtedly necessary, they would not by themselves solve the problem of the poor cultivator. A cultivator whose holding is below 5 or 10 acres will find it difficult to

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increase his output by any appreciable amount without an increase in his holding and without substantial investments of capital. These can only be provided for under the scheme I have already outlined. Co-operative farming alone can provide capital to the agricultural industry and at the same time guarantee the safety of the capital and an adequate return for its investment. I do not want this scheme to be misunderstood as an experiment on the Russian model. I am not suggesting a compulsory collectivisation of agriculture in this country. I only say that where there are very poor cultivators, their economic position is hopeless and they would be in debt perpetually if left to themselves. For such people I suggest Government should make the offer that they should hold land co-operatively, Government advancing them their different requirements and taking from them in return a share of the product. Unless Government does undertake to function as an active landlord, I think it will be difficult to increase the output of the agricultural industry. I realise that such a task together with the marketing arrangements that it would involve, would mean a big expansion of the sphere of

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Government and that its success will largely depend upon the integrity and ability of the Government servants who would be called upon to carry it out. But I think the risk is worth taking. In any case there is no other way of solving the agricultural problem of the vast masses of Indian cultivators. Demonstrations of improved methods, reduction of agricultural indebtedness, security of tenure for the tenants, facilities for obtaining loans at low rates of interest, legal reduction in the rate of interest charged by Sowcars, all these are remedies that can only be successful with a solvent peasantry. Where the mass of the peasantry is not solvent as in the case of India, I am afraid only co-operative farming can provide a solution. ~~As an~~ additional help to the farmer, it will also be desirable for the provincial Government to encourage decentralisation of industry and divert the flow of money income into the villages. At present the small new industries are located in the towns and the big new industries in the cities. The Government officials mostly live in towns and Government expenditure in other directions is also incurred in urban areas with the result that there has been a steady outflow of income from the village

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to the town. And, if the conditions of the peasantry are to be improved, it is necessary that this flow should be turned back. Along with this, Government should proceed with a scheme of compulsory education that would give training in agricultural and industrial methods. We have a great dearth of skilled and disciplined labour in this country and this can be remedied only by a proper system of education.

The question may be raised as to where the finance for all these things is going to come from. I think it will have to come partly from loans and partly from taxes. There is no doubt that in our country to-day the burden of taxation lies lightly on the shoulders of the well-to-do and the rich and they can afford to pay more in taxes. But the bulk of the expenditure will have to be financed by loans. In order to justify the raising of a loan, it is not necessary that the proceeds of the loan should be so invested as to yield a monetary return. It is enough if the Government is prepared to find from taxes sufficient money to pay the interest on the loan; and that it can do. There is no doubt that if loans for nation-building purposes are incurred and spent, it will result in course of time in raising the standard

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of life and the taxable capacity of the people. From that point of view, the loans would be productive even in the technical sense; only it would take some time for them to prove so productive.

As an immediate step I would like to suggest that both the Government of India and the Provincial Governments should combine and appoint a body which should be charged with the task of suggesting a plan for the industrialisation of the country. It should be the function of such a body to examine the possibilities of increasing India's output of economic goods and make recommendations for State action. But the fundamental lines of a State policy for economic development are already quite clear and only the details remain to be worked out. I feel sure that when the policy comes to be outlined it will be somewhat on the lines stated above.

What the Public can do,

In the meanwhile, it is not necessary that the public of the country should wait upon the Government of India and the provincial Governments to act. The Government of India is not under the control of

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the Indian people as yet. And until that time comes, the three main determinants of economic development will be outside the control of the people and it would be difficult to have anything like extensive and speedy industrialisation on a large scale. The provincial Governments are controlled by the people's representatives. And they can do something. From that point of view the recent move taken by the Congress-President is in the right direction, and it will go a long way towards producing a co-ordinated plan of economic action on the part of these Governments. But without power at the Centre, they would not be able to achieve anything very substantial. In the meanwhile, it should be possible for the public by disciplined voluntary action to influence economic activity and promote India's industrial development. If people voluntarily take to patronising only the products of Indian industries, they will be providing a fairly effective substitute for the tariff. If further they will patronise the products of handicrafts, their action would result in a flow of income from the large town to the small town and from the urban area to the rural area. If they would be prepared to extend the principle of volun-

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tary work and offer their services for different national purposes of a socio-economic kind, such as rural reconstruction, removal of adult illiteracy, provision of medical facilities, propaganda against prejudices and superstitions, etc., they would be helping in creating the necessary background for a speedy economic development. And finally they can play the most important part of bringing pressure on the provincial Governments and the Government of India to have a planned policy of economic development and use the economic means these Governments have at their disposal for increasing India's income and thereby enabling the people to have a decent standard of life.