

# Servant of India

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## Topics of the Week.

### "Free" Choice of the Princes.

THE Princes have no longer any excuse for complaint that no warning was given to them of what would be in store for them if they joined the federation. Their *United India* has put it quite bluntly for them. "It is clear," this journal says, "that between the projected Indian federation and the politicians of the Indian National Congress a grim struggle is to be counted as one of the more than probabilities of the near future." It is for the Princes to make up their minds whether they would bring on this "grim struggle." But it appears that in making the final decision they are not altogether free. Says *United India*: "The Indian Prince, anxious to make a decision in the best interests of his State and the whole of India and not inconsistent with the maintenance of his dynastic rule, must find himself between Scylla and Charybdis. If he declares himself against federation, he must be prepared to court the displeasure of those in whose eyes the Indian Constitution Act is a modern eighth wonder of the world. If, on the other hand, he should decide to join in this uncertain adventure, hoping that finally it will end well—under Providence who guides the destinies of nations—he has to incur the certain displeasure of his own countrymen to whom he is merely a tool of the foreign imperialism of which the new federation is counted as a symbol." We did not know that in refusing to join the federation the Indian Princes would incur the displeasure of the British Government. We had thought, in spite of Mr. Churchill's declaration, that the British Government would leave the Princes wholly unfettered to make their choice, and that no sort of pressure, direct or indirect, would

be brought upon them. But *United India* has put us wise on this point, and we thank our contemporary for it. Well, if the Princes are faced with the displeasure of the mighty British Government on the one hand and with the displeasure of their own countrymen—"doctrinaires talking like dictators"—there is no doubt whose displeasure the Princes would be most careful to avoid. If they join the federation, as they certainly will, at any rate we are provided in advance with the why and wherefore of it.

### Hindu-Muslim Pact in Bengal.

UNDER the terms of the pact arrived at between the Maharaja of Burdwan as representing the Hindus and Sir A. H. Ghuznavi as representing the Moslems, the Hindus have bound themselves not to agitate against the communal award. If they break this condition the pact becomes inoperative. This, however, does not preclude the possibility of a modification of the award by mutual agreement between the two communities. Pending such amicable settlement the award will of course remain in force.

IT is provided under the pact that the Bengal Cabinet should have an equal number of Hindu and Muslim ministers. In the services too the two communities will have equal representation, subject to the reservation of an agreed representation for Europeans, Anglo-Indians and Christians. Negotiations to this end will apparently start hereafter so that the operation of the pact is contingent on such agreement being arrived at between the five important communities inhabiting Bengal.

WE do not know that from the practical point of view the pact makes any difference worth speaking of in the present position. The possibility of an amicable change in the award is always open to the communities under the Prime Minister's decision. All that the pact does is to extract a promise from the Hindus about their ceasing all public agitation against the award. This is a paraphrase of the attitude of the Congress which taboos all organised opposition to the award. The provision as to proportions of ministerships and representation in the services now agreed to by the two communities seems merely to give permanence to the present practice. One wonders whether the pact has improved the present position and whether its operation will not militate against the principle of collective responsibility of the future provincial ministries.

### Strike Situation on B. N. Ry.

IT is greatly to be regretted that the strike on the Bengal-Nagpur Railway which started a month ago

shows no sign of an early termination. The strikers have so far not departed from the path of peace and order even by a hair's-breadth and seem determined to hold out till victory is won. Their strength lies in unity and there is not even the breath of a whisper as to any disunion among their ranks. All which constitutes convincing proof that their grievance is real and that it needs to be promptly attended to by the authorities. If the grievance had been imaginary, it goes without saying that the present unanimity amongst the strikers would initially have become an impossibility or at any rate would not have lasted so long.

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It is amazing that in face of the almost unbreakable united front of the strikers the Government should go on as if the situation called for no action on their part. The threat about engaging new hands to replace the strikers held out by the administration has fallen flat on the strikers. We can only wish that the authorities would not be so unwise and short-sighted as to put it into effect, as it will only serve to aggravate, instead of relieving, the situation. Statesmanship lies not in trying heartlessly the patience of the strikers but in having their grievances inquired into by a Court of Inquiry without avoidable loss of time. But the Government have so far withstood the request for such an inquiry put forward on behalf of the workers. Mr. N. M. Joshi said in his recent speech at a strikers' meeting in Nagpur that he failed to see any sense in the Government's hostile attitude to an inquiry.

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#### "Forcing the King off the Throne."

WHEN one expresses a view which is different from that currently held and expressed, one naturally tries to fortify oneself by seeking the support of others. We hope, therefore, our readers, will forgive us for giving one more quotation which endorses fully the opinion expressed in these columns on King Edward VIII's abdication. It is from the *New Republic* of 16th December last. Although the King abandoned the Throne on 10th December our contemporary had not received the news when its comments were made, and hence there is a certain amount of speculation in the comments, for which the readers will have to make allowance. The *New Republic* says :

Why should Mr. Baldwin wish to place before the King so difficult and dangerous a choice? Why was he unwilling to have Mrs. Simpson become Queen, or at least to compromise by allowing the King to marry her in some other status without giving up his throne? Here enter many forces behind the scenes. There is the objection of conservative court circles to an American and a commoner. Of immense power is the disapproval of divorce by the Established Church. It would count as a tremendous loss of prestige for the Church and its position in this matter if it had to anoint a King married to a woman who had put aside two previous husbands. On the other hand, if it could either defeat this marriage or force the King off the throne, it could show an object lesson of the danger of irregular romances. Opposition to divorce also influences non-conformists and Catholics, particularly in the Dominions. No doubt Mr. Baldwin feared, in spite of the strong popular support for the King on the ground that he has as much right to be happy as any other human being, that such an issue would split opinion throughout the Empire and might weaken loyalty to its traditional symbol. Unfortunately, however, the issue is now raised in acute form and will do all the harm of which it is capable, no matter what the outcome.

Finally, there is the suspicion that the King intends to be more than a figurehead, and may endanger the hard-won supremacy of Parliament. This feeling has, strangely enough, been particularly strong among the Tories, who resent Edward's sympathy for the Welsh miners and his interest in good housing for workers. But it has also been rumoured in the past that he has pro-German tendencies and might be sympathetic with the Nazis. There is indeed a danger in a headstrong and temperamental monarch who insists on being a man rather than a mere symbol of state, at this juncture in the world's history. But if Mr. Baldwin and his Cabinet did make up their minds that he must either be curbed or forced out for the future welfare of democratic government, it is a pity that they did not choose a more popular and democratic issue as a test. For in this case the natural sympathy of most uninhibited persons, and particularly of the younger and more free elements of the British public, must be strongly in the King's favour. His independence will look less like the defiance of democratic government than like the justifiable assertion of private liberty as against a censorious and conservative prudishness. A defeat for Edward VIII may doom the Baldwin Cabinet as well.

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#### Seva Samiti, Allahabad.

THE Seva Samiti of Allahabad whose report for 1935-36 has just reached us is an institution devoted to social service. It conducts in Allahabad a high school attended by over 350 boys and a reading room and library which was utilised by nearly 30,000 people last year, and a home for helpless women and children at Cawnpore and 13 night schools having more than 400 students on their roll. These schools are located in the Allahabad district, with the exception of one which is in Ayodhya. The Samiti hospital in Allahabad attended to nearly 19,000 outdoor patients and 3,650 indoor ones. The number of operations performed at the hospital was a little more than 500 and that of injections 800. No wonder that a medical institution with such solid achievements to its credit elicited from high-placed officials the appreciative remarks it did. The number of patients treated at its Cawnpore hospital and its ten Ayurvedic dispensaries exceeded 40,000 and was in the neighbourhood of 1¼ lakhs, respectively.

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ALL this, however, is only a part of the Samiti's work. It engages itself in disinterested social service on occasions like the Ardh Kumbh Mela at Allahabad of last year which attracts lakhs and lakhs of pilgrims to different pilgrim centres from all over the country. The Samiti's work is conducted on non-sectional lines and its help is available to everybody without distinction of caste, colour or creed. The extent to which its services are drawn upon on such occasions by ignorant and illiterate pilgrims is as much a tribute to its work as an irrefutable justification of its existence. The Samiti is also carrying on with remarkable success its valuable social reform work in the Naik community. There are half a dozen centres in Kumaon division which work for the uplift of the community. The work mainly consists in the prevention of young girls of the community from taking, according to custom, to immoral life. This is done by bringing about their marriages and the spread of education among them.

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ALL we can hope to do in a brief notice of the Samiti's many-sided and highly beneficent activities is to enable the readers to have only a glimpse of them. We hope the first two paragraphs will serve that purpose. There can be no question that a development of the Samiti's work would conduce to the

benefit of the general community. But it will be a shock to many that due to inadequate support the Samiti is hard put to it to maintain its activities at their present level, not to mention any widening of them. The Samiti receives grants from the Government and the Allahabad and Cawnpore Municipalities, it is true; but its recurring expenses are twice or thrice the amount of these grants. For filling the gap it has to depend upon the generous public. The public will, we hope, make it possible for the Samiti not only to continue its work unabated but even to increase its scope to some extent.

#### Education in Bihar and Orissa.

THE literacy position of Bihar and Orissa made no striking progress during 1935-36, the educational report for which year has recently come into our hands. The percentage of literates to the total population, which was 3.15 at the beginning of the year, rose to only 3.22 at its close. The proportion of male scholars to the male population was 5.62 per cent. in the year under report as against 5.50 in the preceding year. Female education showed even more disappointing results; female literacy increased by a paltry .04 and is now .84 per cent. If this must be described as progress, it is progress only at snail's pace. It is up to the educational authorities of the province to make special efforts to push on the spread of female education so as to bring up its educational level in line with other provinces.

THE number of educational institutions decreased by 643 to 30,762, which, however, did not have a prejudicial effect upon total enrolment. In fact the number of scholars went up by nearly 30,000 to about 12,15,000, which gives cause for mild satisfaction in these days of financial stringency forbidding any hope of rapid educational expansion. The fall in the number of educational institutions was mainly due to the Government's drive against inefficient and unnecessary primary schools, nearly 700 of which went out of existence during 1935-36. The existence of such a large number of badly conducted and ill-equipped primary schools is the result of the peculiar educational system prevailing in the province. Most primary schools are started, we find from the report, by private enterprise, usually on the part of a teacher. Such schools have found little difficulty in getting departmental recognition with the result that many schools, not really needed, came into being. The situation is thus pithily described: "A second school in a village has often been recognised when the real need was for a second teacher in a school already in existence." Nor has the efficiency or equipment of such schools kept pace with the increase in their strength. The new system of recognition of primary schools introduced in the province, into the details of which it would be tiresome to go here, is designed to remedy the evil.

COMPULSORY education made no progress in the year, nor was it anything better than a farce in areas where it was in force. In one case at any rate there was no attendance officer to enforce compulsion! We hope in all such cases the Government will see to it that arrangements for his appointment are soon made. Experience of the Saran district in the matter of free education serves as a warning against the haphazard extension of the innovation. In that district, the decision to forego fees was not accompanied by ade-

quate provision for additional staff, buildings, equipment, etc. The result was the enlistment of a very much larger number of children than could be efficiently handled by the existing teachers, while those to whom payment of fees caused no hardship escaped payment altogether.

THE number of depressed class pupils rose, we are glad to note, roughly by 5,000 to 69,500. Whereas in the preceding year the number of depressed class students undergoing the College course was 4, the number increased by 2 during 1935-36. Their number in high schools also registered a rise of 100 to 332 and in the primary stage by about 4,000 to 62,000. The number of schools specially meant for these classes which was 373 at the commencement of the year had an addition of 14 made to it. It is not clear whether the local Government consciously follows the policy, pursued in some advanced provinces, of discouraging separate schools for these classes and encouraging their joining common schools to an increasing extent. But if this is not yet the accepted policy in Bihar, we would very much like the Bihar Government to make that its own without delay.

#### Harijan Sevak Sangh's Work.

AT the annual meeting of the All-India Harijan Sevak Sangh recently held in Delhi the draft report for 1935-36 prepared by the General Secretary Mr. A. V. Thakkar was adopted. From this it is seen that the Sangh maintained 1,051 schools attended by 32,000 boys and 85 free hostels whose inmates numbered 1,500 children of both sexes. In addition the Sangh gave scholarships to 1,051 students. The supply of good drinking water to the Harijans also occupied the Sangh's attention. 324 wells were either newly sunk or repaired or were thrown open to the Harijans through the good offices of the Sangh. There were 36 co-operative societies, which had advanced about Rs. 14,000 by way of loans to the depressed classes in various municipal towns.

THE total expenditure of the Sangh was nearly Rs. 4½ lakhs, out of which Rs. 2,32,448 were collected by means of donations from the public. The total amount of scholarships named after Mahatma Gandhi exceeded Rs. 15,500 and the total educational expenditure of the Sangh came to nearly Rs. 2½ lakhs. This is a record of work which reflects great credit on all concerned, specially on the devoted and indefatigable General Secretary.

BUT this does not exhaust the catalogue of the Sangh's activities. Harijan propaganda was in progress throughout the year in the different provinces and the exertions of the Sangh's workers in Mysore State were largely instrumental in having the immoral Basavi or Devadasi system prevailing in the State legally abolished. It is noted from the proceedings of the annual meeting that the Sangh intends to take steps to promote a bill in the Indian Legislature permitting temple entry to all sections of the Hindu public in British India. The Sangh's appeal for financial support on an extended scale will, we doubt not, evoke a sympathetic response from the Hindu community, to which it is addressed.

## TARIFFS, EXCHANGE AND TRANSPORT.

### THE ECONOMISTS IN CONFERENCE.

**A**MONG the large number of public gatherings with which the old year closes and the new one is initiated in India, the annual Conference of Economists has attained a place of importance. At a time when pressing questions of great economic importance are confronting the nation, discussions of a body at which the best economic minds of all the Universities in the country are gathered cannot but be helpful. The Conference that was recently held at Agra was particularly important on account of the high distinction of its president, Dr. John Matthai, who now occupies the post of Director-General of Commercial Intelligence, after having successfully served as Principal of Presidency College, Madras, and Member and President of the Indian Tariff Board.

In his presidential address Dr. Matthai regretted the predominantly descriptive and controversial nature of Indian economic literature, and he entered a strong plea for a more vigorous school of theoretical studies in India. While the country is passing through what Dr. Matthai called a stage of unfulfilled nationalism the controversial nature of the writings of even academicians is perhaps an inevitable feature. With growing familiarity with modern economic structure and an increasing division of labour among the economists themselves a greater advance in theoretical economics may be confidently expected. Nothing can, however, be more undesirable than a tendency to shut up the economist in his own cloistered world. Everything is to be gained by increasing the contact of economists with actual life, political as well as economic. Dr. Matthai's opinion that the use of a foreign language as medium of instruction hinders the development of a genuine interest in the subject-matter of economic science is of course a sound one.

Discussion on tariffs at a conference presided over by an erstwhile President of the Tariff Board and attended by two other economists who had served on that body must evoke considerable interest, especially at a time when it is freely alleged that a recent change in the personnel of the Government of India has resulted in a hardening of Government attitude towards the policy of protection. On the question of the theoretical merits of free trade and protection the main body of economic opinion was definitely on the side of protection as a part of a policy of economic regulation. Criticism was confined to the tendency of expecting too much from the tariff alone and to the danger of perpetuating inefficient methods of production under a loose protectionism. In this respect the position at present allotted to the Tariff Board deservedly came in for considerable comment. The present system of appointing ad hoc bodies for considering the claims of particular industries is most to be regretted, as in the administration of an essentially selective protection nothing matters more than experience and continuous over-

sight. The setting up of a permanent Tariff Board, preferably by an Act of the Indian legislature, and clothing it with a more positive, independent and continuous role than is at present done were widely supported reforms. The shabby treatment meted out by the Government of India to the Glass Tariff Board illustrates the pressing need of early reform in this direction. The preliminary and subsequent censorship that the Indian executive exercises over the activities of the Tariff Board is not only inconsistent with the principle of inquiry by an economic tribunal, but is actually unconstitutional. The legislature must have an early opportunity to know the recommendations of the Board and to take final decisions on the same.

Another important matter connected with the application of the policy of discriminating Protection in certain recent cases came up for much detailed discussion at the Conference. In section 97 of their report the Fiscal Commission have laid down three conditions which in their opinion must be fulfilled by every industry which claims protection. The first condition is that the industry must possess natural advantages, such as an abundant supply of raw material, cheap power, a sufficient supply of labour or a large home market. It is clear from the language used in the Report that it was never intended that all these advantages must be possessed by an industry claiming protection. The report goes on to state that "the natural advantages possessed by an Indian industry should be analysed carefully, in order to ensure that as far as possible no industry is protected which will become a permanent burden on the community." This is language of discrimination and commonsense. But when it is made out that unless an industry possesses all the advantages herein mentioned it cannot justifiably be protected within the terms of the Fiscal Commission's Report the attitude must be described as an indiscriminate opposition to the just claims of Indian industrialisation. The second condition lays down that the industry to be protected must be one which, without the help of protection, either is not likely to develop at all or is not likely to develop so rapidly as is desirable in the interests of the country. The third condition provides that the industry must be one which will eventually be able to face world competition. The Tariff Board ought to be the best judge to decide whether these two conditions are satisfied by a given industry; and when their decision is in the affirmative the advantages postulated in condition one must be selectively, not collectively, treated. When Great Britain is protecting its agriculture and Japan is prospering on an industrialisation based for the most part on imported raw materials, the Government of India has no justification to take an impossible attitude over the supply of raw materials to protected industries. The difficulties of Indian industrialisa-

tion are great enough, but it is clear that the most serious impediment is the unsympathetic attitude of the Government itself. The deliberations of the Economic Conference make it plain that neither in theory and experience nor in the terms of the Fiscal Commission's report is any justification to be found for the recent conscious attitude of the Government of India. The whole question of the implications and application of the Indian tariff is more than ripe for an authoritative inquiry.

Another question on which the Conference could justly have been expected to shed some light was the proposed delinking and devaluation of the rupee. The deliberations of the Conference are bound to be very helpful to a fuller understanding of this unnecessarily confused subject. Whether at its present rate of 1s. 6d. the rupee is overvalued is a question of fact. A similar question was answered by the Hilton-Young Commission by reference to the Indian and British index numbers of prices. If the same testimony is used now it is seen that, in comparison with sterling prices, Indian prices have fallen to a greater depth and that they are refusing to react to the revivalist movement of sterling prices as rapidly as might be expected. The conclusion is clearly in favour of an overvaluation of the rupee. But many of those who do not like the practical consequences of this conclusion find fault with the index numbers themselves which, however, have been known to be defective for a much longer time than is covered by the ratio controversy. The mere fact that the stock of currency has not been added to in the recent past or that the rate of exchange is being maintained because of an export surplus created by gold exports proves nothing with regard to the essential overvaluation or undervaluation of the rupee. On the contrary the lack of adjustment between prices and costs, of which gold exports are one striking result, and the shrinking of the balance of commodity exports over a long time are clear factual indications of overvaluation of the rupee, which is independently proved by the index numbers. But where statistics are concerned it is futile to expect agreement among experts, and over an issue which the Government of the country is so touchy about it is not expected that a unanimous indication would be forthcoming even from academicians.

Even apart from the question of fact about overvaluation, there is the question of justice or otherwise of using the exchange rate in support of a given policy of planned revival. That the British Government is not itself opposed to a moderate use of the exchange rate to induce a desired movement of internal and international price level is amply proved by the comparative freedom with which the British exchange has been operated since 1931. Exchange, interest rates, tariffs, bounties, quotas, public works have all been utilised in their just proportion to stay the depression and to initiate a revival in the United Kingdom. Beyond granting belated and paltry remissions of revenue and paying lip sympathy to the principle of low interest rates, the Government in India has done

nothing either to steady the course of the depression, or to help the country out of it. This policy of utter indifference and passivity is unparalleled in any other civilised country. Though it is still possible to find among older economists a few who have a rooted objection to regulated exchange rates, and though it is easy to trace among the newer economists many who would be sceptical about expecting too much from exchange, all will agree that monkeying with exchange is no more unorthodox than monkeying with tariffs and interest rates. Anybody who is ill at the mention of these proposals had best leave public life for an intellectual nursing home.

Among other subjects discussed at the Conference were Road-Rail competition, Income Tax reform and measurement of the national income. On the last subject the unanimous and strong opinion of the Conference was in favour of going forward with inquiries in rural and urban areas along lines laid down by the Bowley-Robertson report, which has been almost unceremoniously shelved by the Government. It was also felt that unless legislation aimed at compelling business organisations, to supply information was passed the completeness and utility of Indian statistics would remain very unsatisfactory. Several proposals aiming at a stricter tax-collection from earnings of foreign investment were discussed. The need for setting up a parallel system of appellate authorities instead of requiring appeals to be filed before the taxing authorities themselves secured prominent mention. The practical difficulties in the way of administering a tax on agricultural incomes, commencing from the difficulty of assessing incomes and tracing them to their ultimate receivers, were raised in discussion. The small size of the agricultural unit and the large number of proprietary interests create a feeling of caution with regard to the prospects of a tax on agricultural incomes.

The alleged competition between buses and railways and the proposal to restrict the liberty of action of the former came up for pointed discussion. A recent experiment in Hyderabad aiming at giving the railways a monopoly over certain routes was presented to the Conference. That the motor is a more economical and convenient means of transport and that it should be used as fully as possible in the interests of the country was generally accepted. As it is, motors are heavily taxed in most provinces. Though co-ordination and licensing of routes would go a long way in reducing such unfair competition as exists, a thorough overhauling of railway finance and railway rates so as to make them conform to altered competitive conditions must no longer be delayed. The Indian railways have too long been in a sheltered position and their association with Government makes them relatively unresponsive to strictly commercial stimulus. By vigorous action on the part of the Government itself and later of the railway authority the commercialisation of railway policy must be strictly promoted. We must refuse at this stage to be stampeded into adopting a restrictive policy with regard to the bus traffic, which has done

so much to open up the country to new forces. A detailed inquiry, along lines now made familiar by the Gokhale Institute of Politics and Economics in Poona, ought to be undertaken in all the regions. Only the results of such an inquiry can show how far the situation is ripe for introducing regulation, and what

shape the regulation should take. There is reason to fear that under the new constitution the adoption of a policy of national co-ordination between the different means of communication would be rendered especially difficult by the conflicting interests of Provinces, States and the federal Government.

## THE GERMAN-JAPANESE PACT.

THE Pact between Germany and Japan concluded on 25th November last is ostensibly an agreement for mutual police action against the subversive activities of the Third Internationale. What, however, is its real significance? Before discussing this question it would perhaps be well first to give the terms of the Pact itself, which consists of three articles and a supplementary protocol. The terms of the Pact are as under :

(1) The contracting States agree to inform each other of the activities of the Communist Internationale, to consult each other on the necessary measures of defence and to carry them out in close co-operation.

(2) The contracting States will jointly invite such other States whose internal peace is menaced by the subversive activities of the Communist Internationale to apply measures of self-defence in the spirit of the present agreement or to participate in the present agreement.

(3) The German as well as the Japanese text of the present agreement is to be deemed the original text. The agreement comes into force on the day signed and will remain in force for a period of five years. Prior to the termination of this period and in due time the contracting parties will come to an understanding concerning the future method of their co-operation.

Then follows a protocol, of which the full text is below :

On the occasion of the signature to-day of an agreement directed against the Communist Internationale, the undersigned authorized representatives of the two Governments concerned have agreed as follows :

In matters concerning the exchange of intelligence bearing upon the activities of the Communist Internationale as well as measures for the information on and defence against the Communist Internationale, the competent authorities of the two contracting States will co-operate closely. According to the existing laws the competent authorities of the two contracting States will take severe measures against those directly or indirectly engaged at home or abroad in the service of the Communist Internationale or promoting subversive activities. In order to facilitate the co-operation of the competent authorities of the contracting States set forth above a permanent committee will be established. In this committee will be considered and discussed all further ways and means necessary for fighting the subversive activities of the Communist Internationale.

On the face of it, the agreement is formed merely for the purpose of combating communism and is not a cloak for a military alliance directed either against the Soviet Union or China or any other country, but in order to understand the full implications of it, it is necessary to trace the history of this *rapprochement* between Germany and Japan, which is no sudden development. Albert Parry in the current number of *Asia* has traced the history in sufficient detail for more than fifty years past, but his account of the happenings in the year that is just closed may be given here in order to furnish the background to this steadily maturing event. He says :

This is, however, a development not of a few recent weeks. Early in 1936, informed circles in London and Paris cited January 4 as the date of the pact. The Soviet Government took official cognizance of the news when, on January 10, Premier Molotov in his speech before the Central Executive Committee of the Soviets said, concerning the agreement: "In this we see nothing unexpected. Not in vain Japan and Germany, to have their hands free, have in good season withdrawn from the League of Nations, and are now considered the world's most aggressive powers."

As the journals of foreign capitals persisted in their discussion of the pact, Tokyo and Berlin issued denials. Denials ceased as indirect evidence multiplied pointing to a more than informal collaboration between the two Powers. Presently there were semi-official admissions of the agreement, some taking the form of warnings addressed to the Soviet Union.

Thus, according to French newspapers, in his February conversation with Colonel Beck of Poland, General Goering stressed the importance of the German-Japanese agreement as a cooling shower upon England's warlike steps which might be directed against Japan in favour of Russia. Early in April the German envoy in China told a British correspondent that the Reich, while demanding return of her colonies, no longer expected back her former islands in the Pacific now under the Japanese mandate; the problem of these islands had until then been recognized as the most serious obstacle to an understanding between the two Governments. At about the same time a press officer attached to the headquarters of the Japanese army in North China made a public statement calling upon the Soviets to yield before Nippon's drive in Mongolia since, said he, "two powerful nations, Japan and Germany, have united to resist the Russian menace."

With regard to the less direct but no less significant proof we have such facts as the recent permission for the Zeiss concern to open in Tokyo a plant manufacturing range finders for battleships and field artillery, or the public statement by the head of a Japanese steel company, Godo, that the Krupp firm has been supplying Japan's factories with the firm's latest patents. So secret are these patents that, according to the author of the statement, Krupp avoids sharing them with other German plants.

Krupp participates in the building of munitions plants in Manchukuo; also at Kamato near Tokyo, where a factory of special steels and chemical machinery is nearing completion. I. G. Farbenindustrie as well as Krupp, Zeiss and a number of German aircraft concerns, provide the imperial army with airplanes, guns and optical apparatus, while Japan's war industry receives not only blueprints and technical aid but also actual machinery. This is confirmed by Augur, the well-known London commentator on international politics, who writes: "The leading ornament firms (of Germany) are authorized to furnish the Japanese with their models. Under instructions from Hitler the army authorities extend special treatment to Japanese representatives. Secrets of organisation and industrial preparation are freely revealed to them."

Writing in the June issue of the *Moscow Tikhyy Okean* (The Pacific Ocean), I. Lemin, a Soviet authority on the questions of the Far East, gives facts and figures elaborating this point. He recalls that late in 1935 a whole flock of Japanese military missions journeyed to Germany, among them a naval mission headed by Captain Matsunaga which visited important jobs of German naval construction and distributed orders for the Japanese navy. Late in November, 1935, Berlin was the convention town for the Japanese military *attaches* stationed in Western Europe; for this important conference, twenty-two Japanese officers came from the various capitals. In February, 1935, a new Japanese mission of twelve officers arrived in Germany. The visit of a German cruiser to Kobe was, according to the Soviet writer, a friendly show of Germany's revived might.

In fields other than military there has been the same practical co-operation and much mutual admiration. On April 30 Herr Kipp, chief of the German economic mission to the Far East, signed in behalf of the Reich a commercial agreement with Manchukuo. Pursuant to this document, German purchases in the puppet state are raised from 50,000,000 to 70,000,000 yen, while German exports to Manchukuo jump from 4,500,000 yen to 18,000,000. The trade between Germany and Japan is also on the increase: while in 1933 Germany exported to Japan goods to the amount of 75,803,000 marks, the figure rose to 79,600,000 marks in 1934 and 83,500,000 in 1935. The United States is still ahead of Germany in the imports of machinery into Japan, but the Reich's second place is of growing significance; while in 1934 Germany supplied 25.4 per cent. of such imports, in 1935 her share rose to 28.5 per cent. In imports of chemicals into Japan, Germany holds the first place.

Looking at the terms of the Pact itself and reading the statements issued by the Foreign Offices in Tokyo and Berlin, one would conclude that it aimed only at the common defence of Japan and Germany and did not represent a military understanding between the two countries with the intention of forming a Fascist and imperialist bloc against other countries. But the question that here arises is whether either of these countries requires the help of the other in keeping away the communist menace from their frontiers. The anti-communist crusade of Germany is notorious, and similarly communism is taboo in Japan too. As the U.S.S.R. Government stated in its reply to the Japanese Government, "It is difficult to believe that Germany needs Japanese police or that Japan needs German police to combat communism in their own country." The agreement must, therefore, be only a screen, Soviet Russia concluded, for an agreement directed against a third country, viz. itself, which is exposed to attack on the east and on the west by the two States which are at present parties to the agreement. In fact, the protocol attached to the pact itself arouses serious misgivings. Under the pact Germany and Japan "will take severe measures against those directly or indirectly engaged at home or abroad in the service of the Communist Internationale or promoting subversive activities." The two countries thus bind themselves to fight communism abroad, which clearly means, if anything, intervention in other countries like the intervention of Germany and Italy in the affairs of Spain. The Japanese Government explained that the word "abroad" in the protocol meant that any Japanese who was engaged in com-

munist activities in other countries would be punished. But if no intervention is intended, what is meant by the declarations which are made in authoritative quarters concerning the respective missions of the two countries? In a statement to the Official Press Agency Herr von Ribbentrop said: "Japan would never permit the spread of Bolshevism in East Asia. Germany formed the bulwark against this pest in the heart of Europe, and Italy would hold high the anti-Bolshevist banner in the South." Count Mushakoji said: "Germany and Japan were the countries against which the resolutions of the 7th Congress of the Comintern were specially directed, and he was convinced that, acting together as guarantors of peace in the East and West, they would contribute, by the agreement, to the pacification of the world." The Comintern's activities being international, counteraction must be based on international co-operation. The counteraction here intended must follow the lines of the Comintern's activities and cannot have much respect, though the official declaration says so, "for the principle of non-interference with the internal affairs of other countries." Indeed, little room is left for doubt on this point, if we only take the declarations of some prominent Japanese statesmen with regard to China. For instance Mr. Kumataro Honda, former Ambassador to Germany, says, it is Japan's mission "to prevent China from becoming Red and thus to contribute towards the well-being of the entire Orient. . . . Just as Germany is the breakwater of Europe against communist activities, so is Japan the defence-wall against the Orient turning Red, and Germany and Japan must co-operate with full recognition of their respective missions." The two countries, he said, were bound to be united for the promotion of common interests, not only because of their being break-waters against communism, but since they "are in a situation in world-economics, unable to make any attempt to improve their status without running into the restrictive measures of other Powers." Or take the statement of the Kwantung Army concerning the rebellion in Inner Mongolia. This rebellion, it declared, was motivated by a desire to check the spread of communism and the depredations of Chinese militarists, and the Army was determined to take appropriate steps if the hostilities should menace Manchukuo or if China is threatened by communists. "Inner Mongolia's action," the statement concluded, "corresponds with the national policy of Japan and Manchukuo and both countries are naturally sympathetic towards the Mongols."

The Pact, however, full of evil potentialities as it is, does not inspire much fear, for both countries are in such an economic plight that military co-operation between them on an imperialistic basis is not possible to any very great extent. Both of them lack raw materials, and both are in a financial crisis. Japan's defence budget for 1937-38 represents 47 per cent. of her total expenditure. The Army Estimates are for 728 million yen (an increase of 220 million over the budget for 1936-37) and the Navy Estimates are for 681 million yen (an increase of 129 million over the current year's budget), a total of 1,409 million yen, the whole expenditure being estimated

at 3,041 yen or £177 million. Japan cannot render much help to Germany in the latter's expansionist aims, nor will she tie herself up in European complications. What E. Fuerholzer, Far Eastern Manager of the Trans-Ocean News Service, a semi-official news agency of Germany, said on this subject is true: "As far as Germany is concerned, Japan is situated at the other end of the world, divided by sea, desert, and over 10,000 kilometers of Soviet territory. In the case of a war of Germany and Japan against Soviet Russia, Japan would have scarcely one-tenth and Germany a good nine-tenths of what is numerically the strongest army of the world opposed to them." In any case, as Mr. Parry says, "the Soviet Union believes she can still handle her enemies at both ends, east and west. She will operate on her inner lines, shifting men and materials back and forth as the need dictates. During her civil war of 1917-21 she had ample experience in utilising precisely this advantage. Through the fifteen years since winning that war the Soviet military leaders have been assiduously studying the reasons why they succeeded in making use of the inner-line advantage, and why Germany similarly situated in the World War, failed despite it. During the recent manoeuvres of the Red army, the east and west combination against the U.S.S.R. was the main issue before the commanders and soldiers. The War games were in fact a rehearsal—one is almost tempted to say, a dress-rehearsal—of the Soviet answer to the German-Japanese Pact

should such answer become unavoidable." Germany and Japan have different imperialistic aims: if Germany attacks Russia Japan would commit further aggression in China. How far they could or would give direct help to each other is doubtful.

There are possibly some land-deals in contemplation. It is believed in England that the Dutch East Indies will be divided into two zones of influence, one for Japan, the other for Germany, though Japan has described the report as unfounded. "According to Augur, a line is drawn through the Inner seas placing Celebes and Borneo, with its rich oil supplies, in the Japanese sphere, while Germany gives up finally any claim to the islands of Micronesia, which she lost in the World War and which have since been under Japanese mandate. To Germany would be left the hope of gaining ground in Sumatra and Java. These islands are on one flank of the British stronghold at Singapore and the line between India and Australia. Borneo is on the other. German and Japanese footholds there would be such a threat as the British Empire has never tolerated." Italy has not joined the alliance, but she has accorded her recognition to the fruits of Japan's aggression in China, while Japan in return has done the same in regard to Italy's aggression in Africa. In any case it is clear that the alliance is not defensive but offensive; it is an instrument of aggression, whichever be the countries against which it may be directed—China, Soviet Russia or Czechoslovakia.

## THE SPANISH SITUATION.

**T**HE military situation in Spain continues to be one of complete deadlock. Capt. Macnamara, one of the six members of the British Parliament belonging to all the three parties who went to Madrid on a mission of inquiry into the conditions of thousands of political prisoners of that city, thus described the situation in his speech in the House of Commons on 18th December last:

You have, roughly, the western half of Spain in the hands of the insurgents and the eastern half in the hands of the Government, with isolated posts here and there. The chief battle is undoubtedly the battle for Madrid. Outside Madrid you have General Franco's army of some 20,000 or 30,000 men hanging on to the western outskirts of the city, with both flanks exposed and suffering very greatly from the wintry conditions. Inside the city you have some 80,000 to 200,000 defenders—it is very hard to get the exact figures—mainly half-trained militia, and an international column consisting of volunteers from various other countries. The international column in Madrid is, I think, about 3,000 to 4,000 strong. It consists of Frenchmen, Italians, Germans—people who have fled from Germany and Italy—Poles, Czechs, etc. and a few Britons. Although we have good evidence that the Russian aeroplanes, and tanks that are being supplied to the Government are driven by Russian aviators or worked by Russian mechanics, we did not see any evidence of Russian soldiers fighting in Madrid. Outside Madrid you have the Moors, the militia, Fascists and other troops, and also an international force of trained Germans and Italians actually fighting for General Franco. Behind General Franco's lines, from what evidence we can get, there does not seem to be much spontaneity or much desire to join his colours, for the very reason that these Germans and others have entered Spa-

nish territory and are fighting there. The revolt may have started for a very genuine reason, and possibly in its initial stages may have been exceedingly popular among certain sections of the people, but I am certain, if I know anything of Spain—I have known Spain for many years before this civil war—that Spaniards resent all foreign interference from whatever side it comes and, the more the foreigner interferes, the less will the Spaniards show any spontaneity for the side which makes most use of foreigners.

If even in the region controlled by General Franco there is no enthusiasm for the insurgent cause, what about the "totalitarian volunteers"—a phrase made famous by Mr. Noel Baker: are they enthusiastic? Capt. Macnamara said:

In German barrack rooms there are notices asking for volunteers for Spain. German soldiers are taken in before their colonels one after the other and asked whether they will volunteer to go to Spain as tourists, and these lads naturally have to agree to go. Whole divisions are thus volunteering and are put into some form of khaki uniform and shipped off. I have also heard that the German people are not at all happy about this volunteering for Spain. The German soldiers are not over-anxious to volunteer, their families are very much against it, and internally there is a great deal of grumbling on the subject, which means that there is a very good opportunity for us, and that a little firm pressure from us would get them to call off the venture altogether, because there is a growing feeling in both Italy and Germany that they may have bitten off more than they can chew.

These so-called volunteers from Germany and Italy are in many cases conscripts, and in any case their departure to Spain can only be effected under



the suspicions of their respective Governments, who cannot pretend ignorance on this subject. "It is hard to believe," said Sir Percy Harris, a Liberal member, "from one's knowledge and experience of the totalitarian States, that any of their nationals could get passports without having to say why and where they were going. I should think a camel might as easily go through the eye of a needle as a volunteer to go out of Russia or Germany. Hundreds of volunteers are in Spain. A figure which I have heard mentioned, and have seen in some newspapers, is 60,000, as having left the shores of one country . . . It is not unreasonable to say that most of the so-called volunteers carry hidden under their cloaks or packed away in their baggage some form of munition, rifle or other weapon of destruction in order to stimulate the war which is going on", thus breaking the neutrality pact. Yet, while doing nothing effective to stop the inflow of so-called volunteers from Germany and Italy, the British Government has set its legal machinery in motion to stop real volunteers going out to Spain to help the loyalist forces. Everything that the Government does increases the difficulties of the Spanish Government and gives indirect help to the rebels. The British Government was asked whether it could give an assurance that it would take no unilateral action in the matter of stopping volunteers in advance and independently of what other countries might do, and the Government's answer was that there were already laws on the statute book which made it illegal to take active part in a civil war and that those would be strictly carried out. The negotiations on the subject with Germany, Italy and Portugal with a view to an international agreement are proceeding, but in the meantime the British Government has taken action, though there are not too many Britons in the international column.

What are the Fascist countries fighting for in Spain? Mr. W. Roberts, another of the British M.P.'s who went to Madrid, said :

Some people are prepared to fight and give their lives for ideals, but there is frequently a more tangible reason as well. I do not believe that the German and Italian expeditionary forces—for one may call them that—are taking part in the Spanish conflict for the sake of Fascist ideals alone. Much has been said with regard to the strategic importance of Spain, and Spain has a political significance as well. There is also an economic significance. I believe I am correct in saying that of European countries Spain is by far the largest exporter of copper and zinc. There are

in Spain valuable deposits of iron, coal and some other minerals. Some of these minerals are of great importance to all European countries, but perhaps especially important to Germany at the present time. In these days, an empire is not necessarily an empire which is established under a country's flag . . . By exchange, control and other means, it is possible that in the event of General Franco establishing complete control over Spain, those very important raw materials which are to be found in that country will find their way, in increasing quantities, and on more favourable terms, into the Fascist countries to assist their development.

These economic advantages which Germany, who is giving more help to the rebels than Italy, hopes to obtain from Franco's victory are of course in addition to the political advantages that are obvious. It is possible, to put the best possible interpretation on the matter, that General Franco may have started the revolt with the object of "putting right the rather chaotic state of affairs" in the country and "setting up a stronger government." But, whatever the motive, as Capt. Macnamara said, "now that Germany and Italy have intervened, and Germany so very much, if Franco wins, it is possible that he may not be in a position to say what government he wants to set up." Indeed, Spain in such an eventuality will only be a vassal State. The final result of the sanguinary battle before Madrid is still in doubt, but the Government side has made much headway, compared to what its position was at the outbreak of the revolt. The review of the *Times's* Madrid correspondent is distinctly hopeful. "In the military sphere," he says, "progress, without being spectacular, has been continuous and effort is now bearing fruit. The improvised militia retreated before the insurgents from Badajoz to Madrid, but they have held the enemy at bay at the gates of the capital for over six weeks. The supreme trial of strength is still to come, but it will not be on the basis of three months ago. The Army of the People is now in being, with entirely new equipment, both on land and in the air, with new leaders, and with the backing provided by the International Brigade's volunteer forces." Moreover, General Winter is fighting for the Government. But in such a situation what is the British Government doing? It is just sitting back. Capt. Macnamara gave it a serious warning: "Our prestige is at stake in the whole world, and there is an attitude of mind in many countries that we are running away from Italy and Germany."

## THE MANAGING AGENCY SYSTEM.

IT is after a lapse of 23 years that an amendment of the Company Law has been made. For a long time past there had been a persistent demand for a thorough-going revision of the company law not only by the various Chambers of Commerce but also by other bodies like the Bombay Shareholders' Association. The case for such revision gained added strength and importance when the English Companies Act of 1908, on which the Indian Company Law was based, was replaced by the English Consolidating Companies Act of 1929. Meanwhile, the great blizzard of economic depression swept

over the whole country and it put to a great strain the Managing Agency system under which most of the companies were working in India. The Textile Tariff Board was literally flooded with an enormous mass of evidence against the high-handed and corrupt dealings of the Managing Agents, and, sifting the evidence at their disposal, the Textile Tariff Board came to the conclusion that an immediate overhauling of the company law was absolutely necessary, not only to set right the Managing Agency system, but also to rectify a number of other abuses which had crept into the system of company manage-

ment. The Central Banking Enquiry Committee came to the same conclusion and in face of the demand by both these official bodies, the Government did not think it fit to delay further a proper solution of the matter. In 1934, they appointed Mr. Susil Sen as a special officer to go into the question and make a preliminary survey of the matters which required reconsideration. The special officer submitted his report in February, 1935. In order that the Government might have regard to all points of view before the actual drafting of the Bill, they appointed an advisory committee to look into the problem. The committee made some tentative suggestions on which the Draft Bill was based. That Bill was introduced in the Legislative Assembly during the Budget session of 1936 and went to a Select Committee where it was examined by the representatives of all groups in the Lower House. Here it is necessary to mention that a Bill of such great importance ought to have been referred to a Joint Select Committee of both the houses. Both the Bills for establishing the Imperial Bank and the Reserve Bank of India were referred to Joint Select Committees of both the houses. As in the Upper House there were some businessmen of note and distinction, it would have been better for the Government to have profited by their criticisms and advice. As it was, the Council of State took very little part in the shaping of the Companies Amendment Bill. After the Bill emerged from the Select Committee, it was subjected to a thorough-going scrutiny by the members of the Lower House who had tabled as many as 600 amendments. But when the Bill at last came out of the fire, it had not changed much its original shape. Thus the Bill was passed by both houses of the Central Legislature near about the middle of October last and it will come into force as soon as the Governor-General in Council specifies the date of its actual operation.

The most contentious part in the body of the Act was of course that which had reference to the Managing Agency system. The Managing Agents are a peculiar product of the industrial organisation of India. They flourished both in the east and in the west of India, though the reasons for their emergence were not exactly the same in both cases. Near about Calcutta, the Managing Agency grew, because the English businessmen in Bengal were limited in number and they could not provide for each company a Board of Directors which would be sufficiently influential to draw investments from home. Secondly, they wanted to reap the economies of large-scale organisation and they could do so only when a number of concerns were put under the control of a single firm or person. This is how most of the jute mills and tea gardens in Bengal came under the control of the Managing Agents. In the west of India, the Managing Agents flourished for quite a different reason. Capital was very shy in the initial stages of industrial enterprise in India. People wanted to invest their money more in real property or in Government securities than in the shares of a company. So, a number of financiers sprang up who were ready to run a company on their own personal responsibility. They sold shares of the company and got advances

from the banks, but all this they could do because of their strength and reputation in the money market at a time when joint stock business was comparatively unknown in India. This is how most of the textile mills of Bombay and Ahmedabad came under the control of the Managing Agents. In India, therefore, the Managing Agents were the pioneers of industrial enterprise and as they represented the quintessence of business ability in the country, it was not difficult for them to acquire dictatorial powers over the concerns with which they were connected. The Board of Directors became a mere puppet in the hands of the Managing Agents and the voting rights were manipulated in such a way that the shareholders did not have any voice in the affairs of the company. It is not suggested here that this practice was general with all Managing Agents. There were many scrupulous and honest Managing Agents who gave a real voice to the shareholders in the management of the companies. But the powers enjoyed by them were so great that there was always a danger of the powers being abused by the black sheep in the fold, and in many cases the Managing Agents did grossly abuse their powers. They carried on speculative enterprises and landed themselves in difficulty and dragged down with them the concerns under their control, though the concerns as such were financially solvent. This led to great discontent both among the shareholders and the public and a persistent demand was made to abolish the Managing Agency system altogether.

But whatever the defects of the Managing Agents might be, to deduce from them the conclusion that the Managing Agency system should be abolished altogether does not show a correct appreciation of their position in the industrial organisation of India. The Managing Agents were there, because it was very difficult otherwise to float and run a company. They were a natural outcome of the peculiar conditions of industrial finance in India. It has been pointed out already that it is very difficult to find the necessary industrial capital in India. People show a tendency to invest in real property rather than in the shares of joint stock companies. Secondly, they show a preference for securities which have the backing of the Government behind them. Thirdly, the Indian banks are very nervous of lending money to the industrial concerns on their own stocks and assets, unless they get the signature of the Managing Agents. All these causes operating together make it essential for the Managing Agents to come into the field. No good can accrue by abolishing the Managing Agency system unless the causes which led to its emergence are themselves wiped out. The Bombay Shareholders' Association put forth the suggestion that the Managing Agents are there, because most of the companies are under-capitalised. Once you make it impossible for the under-capitalised companies to function, then the Managing Agents will disappear altogether. The Company Law Amendment Act has made it compulsory for every company to collect a minimum subscription before it starts business. The demand of the Bombay Shareholders' Association in this respect has been satisfactorily granted. It remains to be seen whether on that account the Managing Agency

system would disappear altogether or not. The second argument advanced by the Bombay Shareholders' Association was that the Managing Agents were mere fair-weather friends. They helped the companies so long as they were in prosperity and let them alone when they passed through hard times. This assertion of the Association does not seem to be true. For, in the words of Mr. Lokanathan, "The Managing Agents have been the bulwark preventing the industrial concern from collapsing in times of industrial depression." Mr. Lokanathan does not rest satisfied with this generalised statement; he gives specific instances: "When the tea industry of India passed through difficult times in 1920-21 and again in 1927-28 it was the financial strength of the Managing Agents that saved them from collapse and liquidation. The continual losses of the industry dissuaded the banks from renewing the advances, and had the industry had no other agency to fall back on, many of the concerns would almost certainly have had to close down. In the years when the Bombay cotton industry was in a critical condition many more mills would have gone into liquidation than those that actually closed down but for the capacity of the Managing Agents to bear the losses themselves and their willingness or ability to finance at those times." Nor does Mr. Lokanathan alone hold this view. Sir Purshotamdas Thakurdas expresses the same opinion. "Many more cotton mills would have gone into liquidation," he said in his evidence before the Textile Tariff Board, "but for the capacity of the Managing Agents to bear losses themselves and their willingness and ability to finance in critical times." In face of all this authoritative evidence nobody would be led to believe that the Managing Agents are mere fair-weather friends. There might be some cases, where the Managing Agents might have left their companies in times of difficulty, but to deduce from them the conclusion that the Managing Agents as a class are only fair-weather friends is more than what may be fairly charged against them.

The third argument advanced by the Bombay Shareholders' Association is that the Managing Agents, in many cases, have adopted questionable methods and have dragged the companies to rack and ruin merely to satisfy their overweening ambition. With this contention of the Shareholders' Association we perfectly agree. But this does not make out a case for the abolition of the system; it only points out the urgency of its proper regulation and control, so that its capacity for doing evil might be narrowly circumscribed. The Bombay Shareholders' Association would have made an unanswerable case for the abolition of the Managing Agency system, only if it could have pointed out that it was possible to finance the companies without the assistance of the Managing Agents. But this the Shareholders' Association failed to do. They of course pointed out some instances where companies had been promoted without the help of the Managing Agents. But the Textile Tariff Board that heard their evidence came to the conclusion that "in few cases, both working capital and fixed capital were provided by the paid-up shares." If the paid-up shares were not sufficient to provide the neces-

sary finances to a company, the other alternative left to it was to raise money by issuing (1) debentures and (2) preference shares. But here, again, the result was most disappointing. Sir N. N. Sircar, pointed out in his speech in the Legislative Assembly that in India out of every hundred rupees procured by a company, debentures provided only 9 rupees and preference shares 16. This related to the figures of 1928. More recent figures were not available except with regard to the textile mills situated in Ahmedabad. Here it was found by a study of 56 mills that up to October, 1930, 63% of the money was procured by the Managing Agents and the share capital was only 32%. If money was not available by the issue of shares, nor by the issue of preference shares and debentures, the only other alternative left to the company was to run to the banks for money. But in this direction the companies met with a stout refusal. Sir Purshottamdas Thakurdas, who is not himself a Managing Agent, admitted: "The banks were unwilling to advance money on the assets of a liability company unless the same was backed by the personal security of the Managing Agent." The Bombay Millowners' Association expressed the same view. The Central Banking Enquiry Committee discussed at length the question of the financial requirements of the industries in India. They noted the complaint that "the conservatism and lack of initiative make the banks very timid and prevent them from embarking on under-writing of industrial capital or even lending money on the security of industrial shares to any great extent..." "This attitude of the banks in India added to the shyness of Indian capital acts as a damper on the industrial development of India." They again noted the fact that "advances to mill companies are not usually made on a pledge of stocks. . . . A guarantor is required when the so-called 'charge' is not a sufficient security in itself. The personal guarantee of the Managing Agent is also taken." Therefore they made a recommendation for starting industrial corporations in the various provinces with a view to financing the industrial concerns. The Banking Enquiry Committee's recommendations have not yet been put into effect. If and when this is done, the question of abolishing the Managing Agency system may be considered a reasonable and feasible one. But a mere sentimental outburst against the Managing Agents at this stage without any alternative proposal for filling up the gap left void by them will only lead to a strangulation of the incipient industries of the country. The industrial development of India is very meagre even at the present stage compared with her vast resources and the needs of her population, and no hasty steps should be taken which may check the flow of capital and business ability to the new and the weaker enterprises of India.

The abolition of the Managing Agency system being out of question, let us see what methods have been suggested for its proper control and regulation and how far they have been incorporated in the Company Law Amendment Act. In this connection it is only fair to state that most of the recommendations of the Bombay Shareholders' Association have

been adopted. The sting has been taken out of the Managing Agency system and its existence has been made as harmless as possible. Under the new Act, the Managing Agents have been so defined that their subordination to the Board of Directors has been made definite. The Managing Agents can at most elect one-third of the Directors. Thus their supreme power over the executive has been considerably curtailed. By section 43 of the new Act, every company is directed to maintain a register wherein all details regarding the Managing Agents are required to be recorded. This register is made available for inspection by the members. Again, under the new Act, no Managing Agent can stipulate to get anything more than a fixed percentage of the net profits, with a provision for minimum remuneration in case of inadequacy or abuse of profits. Any other form of remuneration must be sanctioned by the shareholders. The Act again prescribes the method by which net profits are to be calculated and thus does not leave any loophole for the Managing Agents to manipulate this in any manner they like. The Act debars the transference of office by a Managing Agent, unless the same is done with the concurrence of the shareholders. The giving of loans by the company or guaranteeing the loans of the Managing Agents by the same is absolutely prohibited. By section 87(e), inter-investment of funds is prohibited by statute. If any breach of this section is committed then the Directors are liable to make good the loss to the company. Besides they are required to pay a heavy fine as penalty. When a Managing Agent is convicted of a non-bailable offence, the shareholders are given the right to remove him from office, notwithstanding any agreement made with him to the contrary. Similarly, insolvency in the case of the Managing Agent leads to his automatic removal from office. By section 87(h), the Managing Agent is prohibited from carrying on a competitive business on his own account.

All these regulations are very good and desirable and they curb the unrestricted powers of the Managing Agents to a very great extent. Only, with regard to two provisions in the Act, there seems to be a great deal of discontent among the people and, examining those two provisions closely, it cannot be said that the discontent is without reason. One of these provisions relates to the tenure of the Managing Agents. In the case of the new incumbents, the maximum period of their tenure is fixed at 20 years. Nobody need have any quarrel with this provision. As the appointment of the Managing Agents is subject to confirmation by the shareholders, the shareholders may reduce this period if they think fit. But, as regards the old Managing Agents, the shareholders have been given no such power. The Act has committed a serious mistake by granting the existing Managing Agents a further lease of life for 20 years. Some of the Managing Agents have existed for generations and it is very wrong to give them a further lease of life. Most of

them have succeeded to the heritage of their able ancestors without having any intrinsic merit in them. It is proper that companies should be freed from their control, if they are not to stagnate both in management and enterprise. For this reason the special officer of the Government had suggested one year as the proper tenure of these agents. After that the old terms were to come to an end, leading to an equality among all the classes of the Managing Agents. If the Government considered this too radical a measure, they might have accepted the amendment of Mr. Pant on the subject. Mr. Pant wanted that the existing Managing Agencies should be made terminable after five years of the passing of the Act, if the shareholders desired to do so; but they could not be terminated unless they were in existence for a period of 30 years. Mr. Pant's amendment was a very reasonable one and it is a pity that the Government did not accept his proposal. The second provision to be referred to is even more retrograde in character. It denies the shareholders the right to change the terms of a Managing Agent if that Managing Agent is appointed before the issue of the prospectus. The shareholders are not so clever as to scrutinise every item of the prospectus of a company. If they were so, the Government would not have had to come forward to rescue them from exploitation. The Managing Agents are mostly required in the case of new companies and if their terms of agreement cannot be discussed by shareholders simply because they are contained in the prospectus of a company, then the new powers of the shareholders will remain only on paper. The defence of the Government was that the shareholders would refuse to purchase the shares, if the remuneration of the Managing Agent appeared to them excessive. But in order to do so, the shareholders must be in a position to understand whether a certain kind of remuneration would be excessive or not. Some cunning businessmen have succeeded in throwing dust into the eyes of skilled auditors. Will it be difficult for them to cheat the shareholders? In any case, the shareholders must have a chance to rectify their mistake and the present provision in the Act will stand in their way. The Government would have done well by deleting this provision. As it is, it will form the basis of much agitation in future.

SHYAM SUNDAR MISRA.

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