

CONFIDENTIAL.

GOVERNMENT OF INDIA
RECONSTRUCTION COMMITTEE OF COUNCIL

RECORD

OF THE

**FIFTH MEETING OF THE CONSULTATIVE COMMITTEE OF
ECONOMISTS**

Held at New Delhi on the 3rd January 1945.



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CONSULTATIVE COMMITTEE OF ECONOMISTS

AGENDA FOR THE 5TH MEETING.

1. The Bretton Woods Conference
2. The Second Report on Reconstruction Planning issued by the Reconstruction Committee of Council.
3. The appointment of a small sub-committee of the Consultative Committee to advise the Planning and Development Department on such matters as may be referred to it from time to time.

RECORD OF THE FIFTH MEETING OF THE CONSULTATIVE COMMITTEE OF ECONOMISTS, HELD AT NEW DELHI, ON THE 8TH JANUARY 1945.

PRESENT:

Chairman.

The Honourable Sir Ardeshir Dalal, Planning and Development Member.

Representatives of the Government of India.

1. The Honourable Dewan Bahadur Sir A. Ramaswamy Mudaliar, K.C.S.I., Supply Member.
2. The Honourable Sir Jeremy Raisman, K.C.S.I., C.I.E., I.C.S., Finance Member.
3. The Honourable Mr. Ram Chandra, C.I.E., M.B.E., I.C.S., Secretary to the Government of India, Commerce Department.
4. The Honourable Sir Cyril E. Jones, K.C.I.E., C.S.I., I.C.S., Secretary to the Government of India, Finance Department.
5. Lieut.-General Sir Thomas Hutton, K.C.I.E., C.B., M.C., Secretary to the Government of India, Planning and Development Department.
6. Sir Theodore Gregory, D.Sc., Economic Adviser to the Government of India.
7. Mr. V. Narahari Rao, C.I.E., Additional Secretary to the Government of India, Finance Department.
8. Sir Pheroze Khareghat, C.I.E., I.C.S., Additional Secretary to the Government of India, Education, Health and Lands Department.
9. Mr. A. S. Lall, I.C.S., Deputy Secretary to the Government of India, Finance Department.
10. Mr. P. N. Segal, Assistant Secretary to the Government of India, Finance Department.
11. Dr. B. G. Ghate, M.A., Ph.D. (LONDON), Under Secretary to the Government of India, Planning and Development Department.
12. Mr. Mohd. Shaghil, M.A., LL.B., Additional Under Secretary to the Government of India, Commerce Department.

Members.

13. Dr. L. C. Jain, M.A., LL.B. (ALLAHABAD), Ph.D., D.Sc., ECON. (LONDON), Professor of Economics, University of the Punjab.
14. Mr. J. W. Thomas, B.Com., B.Sc. (LONDON), Deputy Regional Food Commissioner, Sind and Baluchistan.
15. Mr. B. P. Adarkar, M.A. (CANTAB.), Member, Labour Investigation, Labour Department.

16. Dr. A. I. Qureshi, M.Sc. (LONDON), Ph.D. (T.C.D.), Head of the Department of Economics, Osmania University.
17. Dr. R. Balakrishna, M.A., Ph.D. (LONDON), Reader in Economics, University of Madras.
18. Prof. V. L. D'Souza, B.A., B.Com. (LONDON), Professor of Economics, Mysore University.
19. Rao Sahib Dr. B. V. Narayanaswami Naidu, M.A., Ph.D., B.Com., B.A.-AT-LAW, Principal and Professor of Economics, Pachaiyappa's College, Madras.
20. Dr. B. R. Misra, M.A., Ph.D. (LONDON), Professor of Economics, Benares Hindu University.
21. The Rev. Dr. E. D. Lucas, M.A., Ph.D.; D.D., Dean of Post-Graduate Studies and Senior Professor of Economics, Forman Christian College, Lahore.
22. Mr. D. R. Gadgil, M.A., M.Litt. (CANTAB.), Gokhale Institute of Politics and Economics, Poona.
23. Dr. Radha Kamal Mukherji, M.A., Ph.D., P.R.S., Professor of Economics and Sociology, Lucknow University, Lucknow.
24. Dr. Gyan Chand, M.A. (PUNJAB), Ph.D. (LONDON), Professor of Economics, Patna University, Patna.
25. Dr. P. J. Thomas, M.A., Ph.D., B.Litt., D.Phil., Director of Research, National Investments, Finance Department.
26. Mr. C. N. Vakil, M.A., M.Sc. (ECON.) (LONDON), F.S.S., Professor of Economics, University School of Economics and Sociology, Bombay.
27. Mr. J. P. Niyogi, M.A., Ph.D., University Professor of Economics, Calcutta University.
28. Dr. V. K. R. V. Rao, M.A., Ph.D. (CANTAB.), Director of Statistics, Food Department, New Delhi.
29. Dr. J. C. Sinha, M.A., Ph.D., Professor of Economics, Presidency College, Calcutta.

The Chairman opened the proceedings with a short speech in which he said "this is the 5th meeting of the Consultative Committee, although this is the first meeting at which I have had the honour of making your acquaintance. I do not propose to deliver any address because you have already heard me at the Conference and I think we have had enough of general talking."

"The first item on the agenda is the Bretton Woods Conference on which we would like any of you who may be interested to make your comments. I may state that my colleague, the Finance Member, is here only for this morning, so that if we could conclude the discussion on Bretton Woods by one or quarter past one this morning it would be very suitable. The next item is the Second Report on Reconstruction Planning, on which again I would request you; if possible, to confine yourself to general observations and important matters of policy and not go into details, because otherwise it will take us too long. The last item is the appointment of a sub-committee of the Consultative Committee to advise me on special matters. That is a committee from which I am looking forward to achieve a great deal. This large Consultative Committee, after all, can only meet at infrequent intervals, whereas I am hoping that this particular committee, which we may call the General policy sub-committee of the Consultative Committee, may be able to keep more or less in constant touch with this Department and to meet me, say, once a month if possible, so that they may be able to advise me on general questions of policy and on important issues with regard to different matters which might be placed before you. When that item is reached, I shall propose the members of that sub-committee. We shall now take up the first item."

At the request of Dr. Jain, the Hon'ble Sir Jeremy Raisman agreed to make a short statement on the Bretton Woods Conference. He said that most of what happened at Bretton Woods was pretty well known and that there was very little he could add to what had appeared in the Press. The main question in which India was interested, he added, was about the inclusion of the sterling balances in the scheme of the international monetary fund. The main reason why that proposal was negatived was that the size of the fund was already so restricted that it was felt by everybody there who was not directly interested in abnormal war indebtedness that the fund was already barely sufficient to accommodate the probable short term disequilibria of member countries.

As regards India's position on the executive it was apparent that in accordance with the rules which had been drawn up and which were part of the scheme of the fund and of the bank, India would always have a place on the executive directorate, so that it merely means that instead of being automatically appointed without election, India would have to go through the process of election.

There was one other matter Sir Jeremy added in which the Indian Delegation was very interested and that was in the formulation of the general purposes and policies of the Fund. He said, "we were anxious to ensure that adequate attention would be paid to the desirability of developing backward countries, and we spent a good deal of time in trying to secure an agreed formula on that. The formula originally proposed appeared to us to be weighted unduly in emphasis in favour of securing full employment in modern industrialised countries of a highly developed kind and it did not seem to us that there was sufficient emphasis on the equally important aspect of bringing up the development of economically backward countries. Well, we did secure some modification in the wording, although we did not secure all that we wanted. We actually wished the weight of the emphasis to be on the improvement of the condition of backward countries. But we secured some redistribution of emphasis which makes the formula less objectionable from our point of view. But the main argument against us was that the Fund, after all, was only intended to deal with short term disequilibria and the raising of the status of economically backward countries was more of a long-range policy and that, for that purpose, the International Bank was the more suitable instrument and therefore it was inappropriate".

Speaking about the International Monetary Fund Dr. J. C. Sinha said that while it was true that all countries were permitted to join the Fund it was a matter of regret that in so far as member countries other than the original members were concerned, conditions of entry had not been explicitly stated in the proposals but were to be determined by the Fund later. He feared that at the termination of the war, feelings and passions would run high and unnecessarily harsh conditions might be imposed preventing some important countries from joining the organisation. He next pointed out that as voting rights had been made substantially proportionate to quotas the U.S.A. got 28 per cent. of the total number of votes of the original signatories which gave her a predominant voice in all matters. He felt that it would have been much better from the point of view of International co-operation if there had been a clause to the effect that no country could have more than 10 per cent. of the voting rights. He feared that this glaring inequality of voting rights might deter some of the original countries from joining. Dr. Sinha then pointed out that the last date for signing the agreement was the 31st December 1945 and under Section 4 (a), Article 20, of the proposals, sixty days before the entry to the agreement the basis of the par value had to be stated. This created special difficulty in the case of India as it meant that the basis of our par value would be the rate of exchange ruling on 1st November 1945. The present rate of exchange was purely a fictitious rate on account of trade restrictions and price

control and he did not expect that the war would come to an end soon enough to bring about fairly normal conditions by November 1st, 1945, as India was likely to become an important base of war against Japan. He felt that they might become even more rigorous and we might experience a fresh outburst of inflation. He wanted the Committee to consider whether it would be possible for us to fix our par value later on and not on the rate ruling on the 1st November 1945. He further pointed out that while it would be possible for us to change our exchange rate to the extent of 10 per cent. by our own action and that we could take advantage of the transitory provisions under Article 14 of the proposals, he doubted very much whether we could take shelter behind these provisions for long after the war; for, then, pressure from all sides would be exerted to compel India to give up exchange restrictions. He reminded that on two previous occasions we had suffered from the mistake of trying to stabilise the exchange rate at a time when conditions were far from normal, viz., at the time of the Babington Smith Committee and at the time of the Hilton-Young Commission and urged that the same mistake ought not to be repeated again. He, however, felt that India could not afford an isolationist policy and keep out of the international scheme, if that was the only scheme that could come into force as a free and autonomous rupee was fraught with greater dangers.

Dr. Gyanchand agreed with Mr. Sinha regarding the desirability of making the fund as comprehensive as possible, and hoped that the conditions for the entry of other countries, even countries like Germany and Japan, after the war would not be made unduly strict. He next stated that the primary object of the fund, besides of course providing for adjustment of short-term balances, was to do away with competitive depreciation of exchanges and multiple rates. He admitted that these two practices were the cause of numerous evils and he could not possibly think of a world after the war in which there would be international co-operation, if these two practices were to continue, but he wondered how this could be achieved when all countries set up planned economies. He added that in the Reconstruction Report there was provision for import control, and if we were to have import control, exchange control followed as a matter of course to a certain extent. He also felt that corporate trading which was also visualised in the Report would involve premises of a very different character than those which had been assumed in the Bretton Woods scheme, or from its major assumptions. The third point to which he referred was that the scheme envisaged action on the part of member countries for readjusting their own economies when their surplus balances or deficit balances exceeded a particular limit. It was also provided that the fund would advise the countries concerned to take certain actions and the countries concerned would probably act upon that advice or at least be influenced by it. Apart from temporary disequilibria it assumed that if the fund came up against permanent disequilibria then certain actions of a monetary and non-monetary character would have to be taken. That raised the question of the technique of control, the technique of readjustments to remove permanent disequilibria; and for that purpose in other countries of the world and also our own we would have to reorganise our currency system and develop new techniques. In all countries of the world the bank rate as the instrument of control had become more a symbol than anything else.

Mr. J. P. Niyogi said that the fundamental difference between the Keynes and the White plans on the one hand and the present scheme on the other, was to be found in the pro-creditor bias of the draft scheme. The main object of the scheme was to correct the disequilibrium in the balance of payments. The disequilibrium might be either in the credit side or in the debit side. So far as the debit side was concerned the correctives which were proposed in the earlier plans had been retained, although in a modified form. But so far as the correctives on the credit side were concerned these had been abandoned with the result that there was a pro-creditor bias in the scheme for the establishment of a monetary fund. A fine of one per cent. was imposed if the credit exceeded a

limit under the old plan but found no place in the new draft scheme. This pro-creditor bias he added was not only in the scheme for the establishment of the Monetary Fund but also in the scheme for the establishment of the International Bank. The main work of the Bank would be to act as a guarantor - for loans granted. For all practical purposes loans will be granted by the U.S.A. and India as one of the participating countries will have to act as a guarantor for the loan granted by the U.S.A. to say Bolivia. It sounds as rather curious that India should guarantee this loan granted by the U.S.A. when India has been denied credit facilities for the liquidation of her abnormal balances. He reminded that in the White Plan as originally drafted, there was a plan for the liquidation of these abnormal balances but that provision had been dropped. That, to his mind, was an anomaly which could be only explained on other than economic grounds.

Mr. C. N. Vakil said that from the point of view of economic planning in this country the problem was that of having comparative stability internally if the planning of the various schemes was to succeed and added that it would be desirable to see that the impact of external forces on our internal economy was reduced as much as possible. That meant that the impact of external forces came mainly because of imports and exports which in other words meant that we should have to go in for control of foreign trade and added that if we were going to have planned economy and be masters in our own house in all our internal arrangements, then it was incumbent upon us to see that our plans were not upset by forces over which we had no control, that is by foreign trade. It would mean that foreign trade, imports and exports, being decided by the will of individual businessmen (which would be the case under multilateral arrangements) might have to be decided in a large measure by a central authority. The Central authority might have to see that certain types of imports shall be allowed and also that certain types of exports should be allowed. For example, if we needed food here and if prices of food abroad or elsewhere were higher, then there might be a temptation to export which under a planned scheme would not be desirable and exports might have to be prohibited. Similarly import of certain types of articles might not be desirable under our planned schemes, and might have to be tabooed by the Central authority. He suggested that that would mean control of foreign trade considerably and therefore of foreign exchange. Foreign trade cannot be controlled unless foreign exchange is controlled. If we were to achieve a comparative stability of foreign exchange and in our economic relations with other countries, in achieving such foreign stability, if we were likely to bring about disequilibrium or difficulties in the comparative stability of our internal conditions (which was not likely), he was afraid that the two ideas, viz., international economic co-operation in the exchange field and internal stability seemed to be in juxtaposition and would be very difficult to reconcile. In the interests of planning therefore we should have complete freedom in this matter and he had grave doubts from that point of view whether that particular scheme would be welcome to this country.

Prof. B. P. Adarkar said that from a purely academic standpoint there were two main aspects from which the Act had to be considered, viz., international and the national aspects. From the international point of view there were no doubts that this was a proposal of major importance and that for the first time in the financial history of the world, after the debacle of 1933, we had a plan which had been prepared very carefully as a compromise between conflicting views and interests. In the first place it was not a gold standard which was uncontrolled but a modified and a very flexible gold standard where the par value of gold itself could be altered by simultaneous and all round change in the values of the currency. Secondly, the final act seemed to provide for a range of variation in the exchange rate in the par values, which was also in keeping with some of the advanced monetary theories, viz., variation between the par values. No specific reference seemed to have been made as to whether any country

would be in a position to join any group, sterling area or dollar area. While there was nothing very unfavourable, the only feature which he personally considered was rather unfavourable was the implicit permission to have areas within the International Monetary Fund which might ultimately be working contrary to the interests of all the nations as a whole.

From the national standpoint he thought there were two main questions to be decided. In the first place whether India's main objectives realised under the Act? And secondly what would be the losses or inconveniences to India, if she got out of the fund. So far as India was concerned, whether the main financial objectives of the country were realised or realisable under the Act, there were three minor points to be considered. Firstly, did we get adequate voice in the management of the fund and secondly, whether we could liquidate our sterling balances and thirdly, whether our post-war reconstruction could not be financed from the Fund either directly or indirectly. Of course the International Bank was there but the International Bank and the Act together, could they be of any assistance in this direction? We were already disappointed so far as a permanent seat on the fund was concerned, but we were told by some delegates that because we have 400 million dollars worth of share in the fund, we would be in a position to have at least one seat. He was not quite sure whether this would enable India to get a seat.

Coming to the second question, namely, sterling balances, he felt that though they may appreciate for sometime. We might conceivably find ourselves in the end without any sterling balances at all. Starting with something like a 1,000 million £ we may find ourselves faced with various liabilities such as the pension fund of about £150 millions. Then there was also the question of the joint liability on account of war finance which may mean anything between 4 and 5 million £. Then there was also the possibility of deficits in our foreign trade balances particularly in the immediate post-war period. Finally there was the question of the backing of the rupee currency and that sterling balances might be required as some sort of backing for our currency. If, however, it were assumed that there would be a large sterling balance at the end of the war, the question arose of liquidating them, but the Act provided no facilities as any national indebtedness arising out of the war would not be a subject falling within the purview of the Fund.

Speaking about the international bank, he said that had been pointed out as a possible solution for this problem of liquidation of sterling balances. He did not know how far the International Bank could advance against our sterling balances, and also whether it would advance at all. It would probably involve the permission of the British Government to use these sterling balances for the purpose of giving loans, as a co-lateral. But if we did not join the fund, obviously we could not also join the bank. But joining the bank itself would not be such a big privilege, seeing that the funds of the bank at least in the initial years, would be devoted to reconstruction largely, and not to development about which we particularly were keen. Secondly, he thought we could bargain for capital investments against market privileges; and there were always countries which would be prepared to lend, provided we gave them market privileges. He therefore was indifferent as to whether India joined or not. The gains and losses were not so fair and balanced, and he did not think this country would suffer too much if it did not join; and even if it did join, he did not think that any good would come out of it which could be regarded as outstanding.

Mr. D. R. Gadgil said that it had been generally agreed that there had been a considerable and continuous whittling down of the scope and purpose of the Fund. If the original intentions as set forth in the preamble to the Keynes proposals were compared with those now presented it was obvious that what was expected from monetary experts as being possible through the mechanism of an International Clearing Union or Monetary Fund was now no longer so. While it had been agreed nothing was possible during the transition period, even

during the normal period, the total accommodation available for current transactions was specially limited. If, for example, he added, we considered the Indian case we would find that over the period of 25 to 35 years the variations in the balance of trade of India had been in some years of a magnitude much greater than Rs. 30 crores which was the equivalent of 25 per cent. of the quota. This meant that if trade cycles were not otherwise controlled, it was obvious that in a period of any considerable slump the international fund as now visualised with its resources would not be able to meet the peculiar circumstances of specially agricultural countries in a time like the depression or the post-war period.

Another point to which he drew attention was the general deterioration in the contemplated position of the deficit countries. The whole emphasis here, whether in the provision with regard to repurchased currencies or in the section dealing with charges, was on making charges penal, making the provisions strict, so that the deficit country did not persist in running into a deficit. As against the persistently surplus countries, the only provision was permission given individually to separate countries to take action against those countries. There was thus no co-ordinate general action contemplated at all though it was to some extent contemplated in the earlier proposals. He narrated that if we agree to enter the fund we definitely committed ourselves to limitations in exchange flexibility. He attached considerable importance to what we declared to be par value. He did not quite know what forces would be operating on the general Indian situation when we would be called upon to declare the par value. In the earlier plans, however, we got transitional stages and exchange rates were not too early pegged. That was an important point for consideration but he was personally disposed to think that it would be an advantage to us to join the fund, chiefly because in the manner in which international monetary experts visualise economic system to run, the exchange controls were the least important. In the post-war world trading would be to a very large extent governmental trading. The balances would be to a very large extent controlled by state operations or dealings between national cartels. Both from the trend of what we know has happened in war as well as the way in which things have been working from the Keynes Plan down to now, if we see the whole trend, we need not bother about flexibility of exchanges, because it has been found to be too indirect an instrument altogether. There are too many direct instruments that we still have with us. Our membership of the international monetary fund does not deprive us of those instruments and therefore we might well say that even this amount of international economic co-operation is quite all right, if we can get it, in view of U.K.'s definite reserve regarding transition for five years; and accepting no obligations is another important safeguard to that respect, also, if we continue during the transition to exercise that privilege. Having regard to exchange controls in the post-war economy as contemplated by experts, he thought it would be of advantage for India to agree to this very small beginning of international economic co-operation.

(At this stage the Committee adjourned for lunch.)

The Committee resumed the discussion at 3 p.m. with a reminder from the Chairman about the advisability of concluding the item in question within a short time so as to leave time for discussion on other items.)

Dr. Jain felt that it should be provided *ab initio* that instead of 5 there would be 6 members. The next point he raised was with regard to the objective referred to in Article 1. About unemployment he thought that we should have said "full employment", because the objective should be full employment, although we may not be having a high level of employment. A high level of employment was rather a vague term and it might be interpreted in different ways. For instance, it may be said that if in India we had 60 per cent. employment, it was high enough for India under Indian conditions, but if in England we have even 80 per cent. of employment, it is low level. Referring next to the provisional or transitional arrangements,

i.e., Article 14 he said that while he quite agreed that there must be some arrangement for a transitional period he felt that the 4 or 5 years contemplated were too low. He feared that if we allowed countries to do what they liked and what their circumstances warranted in 4 or 5 years, then they would find it difficult to cease certain commitments and the whole agreement might be made a distant agreement or a pious hope.

Sir Theodore Gregory explained that everybody at Bretton Woods wanted to lengthen the transitional period and not shorten it. He next explained why the preamble spoke of high level of employment rather than of full employment. The answer was that this particular paragraph was altered at the express desire of the Indian Delegations with the support of other Delegations representing economically the less advanced countries. They thought that "full employment" was a meaningless phrase when applied to countries with a very large agricultural population.

As regards the rate of exchange, *Sir Theodore* observed that it was going to be extremely awkward and difficult for any government in India to declare its rate of exchange by next November. The reason why that date was put in was quite obvious. Everybody thought that the war would be over by Christmas. There would then have been nine months in which the various nations could have gone through the various agonies of post-war readjustment, and there would have been a reasonable basis for fixing that provisional rates of exchange. The objection which *Prof. Sinha* and others have raised would be felt equally markedly in other countries, and it was certain that the date chosen in the Bretton Woods agreement would have to be postponed. There is one further reason why India should demand, as a matter of logic a postponement of the date; namely, that it is going to be astonishingly difficult for this country to even suggest a rate of exchange in terms of gold before we know what the sterling-dollar is going to be. Continuing, *Sir Theodore* said that the question of exchange control specifically was raised both by the New Zealand and by the Australian delegations and that there had been a long and animated correspondence since then in the *Times* between *Lord Keynes* and various of his critics on this very point. The attitude taken up by the American and the British experts was simply this; all that the strict requirements of the agreement impose on a country is the absence of discrimination and presence, as far as possible, of multilaterality. It is perfectly open under the Bretton Woods agreement for a country to monopolise its foreign trade. But the only thing that a country is not allowed to under the Bretton Woods agreement is to arbitrarily prohibit the assignment of foreign exchange to such persons as it tolerates under the law as importers after having issued an import licence previously. *Sir Theodore* agreed with the view that the real difficulty about the fund was that the fund was much too small. Everybody at Bretton Woods among the creditors, including again the British delegation, said exactly the same thing.

The Hon'ble Sir A. R. Mudaliar said that it was an absolute certainty that India would find a place on the Executive Committee.

SECOND REPORT ON THE RECONSTRUCTION PLAN.

Dr. Kadhā Kamal Mukherji regretted that there was not a word about stabilisation of agricultural labour conditions in the whole of the report. He pointed out that the number of agricultural workers was steadily increasing and would be about 30 million now. He added that in some provinces the rate of increase of agricultural labour population had been a cause of menace to social and communal peace. Collective farming had been suggested as one of the solutions and that may be adopted in connection with large-scale reclamation projects adopted by Government, but to his mind collective farming as a programme had various social and economic difficulties. The whole question of the stabilisation of agricultural conditions was connected with the reform of the

land system. He regretted that there was no discussion about the form of cultivation units. It was one of the gravest problems for Indian agricultural planning, viz., that almost 50% of the holdings in the crowded provinces of Northern India have become under-sized. The problem was connected with the change in the law of inheritance we might adopt something of the kind of law (Law of Primogeniture) which prevails in the Continent of Europe. He stressed that in the final phase of working out agricultural planning the all-important question of the reform of the land system should be taken up in great detail. He objected to the suggestion in the report that there should be more of freedom from restriction to the actual user of the land. Wherever economic cultivation units had been started freedom to sublet, to lease out, to transfer or even to borrow whether for productive or for non-productive purposes had been very severely restricted, so that that part of the report went against modern agrarian legislation.

With reference to agricultural planning, he said, one of the first steps taken by the U.S.A. and Russia and other countries was the centralised management of the big river basins and stressed the importance of inter-provincial or inter-regional boards for the control of irrigation, hydro-electric works, river control and management. With reference to Industrial labour conditions, he submitted that the minimum wage should be worked out on the basis of certain physiological norms of consumption. The norm adopted in the report was that of Dr. Akroyd's. Since this norm was based on six hours of work, it had to be proportionately raised for nine or ten hours of work and would be in the neighbourhood of something like 3,000 to 3,500 calories.

With reference to regionalisation of industries he said that in the backward regions we had to speed up the process of industrial development so that the whole country may have one standard of living as had been done in Russia.

Finally he referred to Emigration and felt that the question of the freedom of Asiatic emigration would have to be reconsidered from the Indian angle. He emphasised that this problem might also be taken up in consultation with the other members of the British Commonwealth.

Dr. A. I. Qureshi regretted that in both the Government and Bombay plans adequate importance was not attached to the planning of agriculture, though he argued that agricultural development by itself would not solve our problem and that the problem of industry and agriculture could not be separated. He next went on to say that 20 or 30 years ago in the provinces, the main source of revenue was land and it still was for many provinces. He saw no justification in this since a man with less than 2,000 rupees income was exempt, but a man with one-twentieth of an acre had to pay land revenue. The burden had been falling on those shoulders which had been the least fitted to bear that burden. He next suggested that the problem of agricultural planning and execution should be entrusted to people belonging to the land-owning stock who knew agricultural problems intimately. Referring to the problem of rural finance, he said that we had been laying too much stress on co-operation as solving all our difficulties. It might be a sovereign remedy for various things, but in this matter it had absolutely failed and it was high time that people in charge realised that as far as provision of credit was concerned, co-operative societies had failed and they should think of other means.

Another important problem he said was the marketing of agricultural produce. In this connection he raised the question of trained personnel. His experience was that people with degrees from agricultural colleges were deputed to advise the farmers. He pointed out that in the United Kingdom, in Australia and in the United States people with five or ten or fifteen years' training as farmers were employed to advise the farmers. He advocated a similar system for India in which people who had actual knowledge of Indian agricultural conditions were selected for these services.

Mr. B. P. Adarkar visualised certain changes in the constitution in many respects to facilitate the working of the programme in order to avoid unco-ordinated activity.

Another assumption seemed to be envisaged in the plan was that the present population would continue at its present level. No suggestion had been made anywhere in the plan that the population would be controlled. He thought it would be one of the greatest limiting factors upon the plan if we went on developing the economy of the country but did not control the population—the per capita income might remain almost stationary. He was glad to find that the Report recognised no anti-thesis between agricultural and industrial development.

He pointed out that the weakest part of the Government programme was finance. The Government had not either given full thought to this aspect or they thought it did not deserve much thought. He felt that the amount set aside for planning for the next five years was too small as compared with what had been and was being spent today on war. He did not wish to give any particular figure, but big finance was necessary and Government should be prepared for it. What really mattered was the cumulative growth of our finance as the economy developed. We need not be frightened unduly by the initial stages. Russia started with practical poverty: it could not obtain resources from other countries to any substantial extent.

In connection with the question of man-power, he felt, that not enough attention had been given to the programme of full employment. If we wanted full employment, we should see to it that the present level of total expenditure, public and private, was maintained. That was not being done and he was afraid that so long as the total expenditure of the country was not maintained at its present high level or even at a higher level the full employment question was likely to be shelved and we might be faced by some sort of slump after the war. Another point was that the Government of India had not stated how they would prevent the occurrence of a slump in the post-war period. If a slump came, he felt sure that the whole plan would subside, for the simple reason that there would not be enough money to go round and it would have a damping effect on the Government's whole activities. Mr. Adarkar went on to say that the main thing about which he would like to give a warning was post-war deflation. No such issue had been considered in this report at least. Referring to technical training, he said that Russia trained two million men in a year or two. It was not perfect technical training. Every worker was given some kind of training for his own industry. It was not 100 per cent. training but it increased his productivity and efficiency. He thought some simple training should be given to our workers who were not only illiterate in languages but also in their own trades. Some sort of simple training as was given in Russia would increase the efficiency of labour as a whole.

Dr. B. V. N. Naidu stressed the necessity of the study of each industry like the cotton industry, the cement industry and the sugar industry and also to find out the quantities imported from foreign countries and requirements of each industry for the future. After taking the necessary survey we must endeavour to bring about an expansion of all industries which had a vital bearing on the development of the country. He also said that the time had come for quality control and the Government must therefore establish a department for standardisation of products and see that a high quality was maintained.

Coming to agriculture, he said, there was the problem of unemployment and under-employment which varied in different areas from two months to seven months. An intensive study must be made of the labour conditions in rural areas with a view to increase the purchasing power of the people. He also suggested that a special study of land tenure should be made.

Dr. V. K. R. V. Rao raised the problem of financing and priorities in planning and asked to bear in mind the two objectives in view, namely, reconstruction in the immediate period following the war and the planned development of the country's economy. In dealing with the period immediately after the war, he pointed out that there was a likelihood of a big slump in Indian prices if the present rate of exchange was maintained. He emphasised the desirability of enquiring into the incidence of the rise in prices on different classes of people and compensating such sections like teachers and soldiers as have suffered the burden of war finance and also the necessity of satisfying suppressed consumption demands.

He said that in order to facilitate a smooth transition from war to peace it was necessary to take to some monetary steps and have a reasonable priority for consumption goods. It should prevent a slump in agricultural and other prices and also maintain the present level of expenditure. He stressed that we were not starting on a clean slate and we had a doubt objective before us. We had to solve the problems arising from the war and at the same time plan those measures such as to bring about a rapid and planned economic development of the country. Considering the various difficulties the population had to suffer during the last five years, he suggested that for the first period of five years we should give a higher priority to such things as clothing, housing, leather goods and the kind of articles which are in general consumption demand. He was not suggesting that the Government should not take to development of capital industries but if finance was limited he thought that for the first five years it would be in the interest of the country to have a development of consumers' goods. He was not unduly apprehensive about finding the necessary monetary technique for getting the funds but the Government had realised during the course of last five years the dangers attending upon using money as money for the purpose of bringing about the increase in demand. Finally, he referred to the problem of population and suggested a planned decrease in population or restriction in the number of marriages.

Dr. Gyan Chand said that the assumption referred to by Mr. Adarkar, namely, that the capitalist system would be in operation after the war so far as its major premises were concerned; was belied by certain phrases (scattered in the document) like "the clear anomalies of wealth and poverty", "licensing of industries, harnessing private profit to social ends"; minimum wage for industrial labour, etc., and by the assumption implied in the plan that a guaranteed minimum was to be provided for all. If we could get hold of these essentials and write them out in our plan we should be able to get somewhere and produce results of which we might have no reason to be ashamed. Discussing the question of standard of living, he said that the report relied mostly upon the dispersal of industries and the development of social services which he thought had to go a great deal further. He pointed out that minimum wage could not only be fixed for industrial workers but also for the agricultural worker and the cultivator. If we adopt this plan it would also solve many other problems like price stabilisation and parity between agricultural prices and industrial prices. Since our resources were not adequate enough to maintain the present range of inequalities and at the same time guarantee minimum for all, *Dr. Gyan Chand* suggested the reduction of glaring inequalities and the fixation of a floor and ceilings for individual income levels.

Coming to regional surveys he said if regional boundaries did not correspond with political boundaries we must start considering the internal unity of those regions which we wanted to develop. He also very much favoured the view referred to in the report that public corporation would be suitable provided it was made impossible to utilise public power for private ends. In considering the control which the Government would exercise over private enterprise, he felt that it should include not only the provision of economic securities for the workers but also the location of industries, extent of production and priorities in production.

He did not agree with Dr. Rao that priority should be given to consumer goods but held that heavy industries not only long after the war, but soon after the war have got to be given precedence. Welcoming the scheme for the imposition of for an inheritance tax, he opined that the maintenance of the war level of taxation and even an increase in it would be an essential condition for the economic development of this country. He favoured the idea of borrowing from the International Bank; and control of not only imports but also exports. Control of population within the next 15 years would be impossible and provision would have to be made not only for the existing but also growing population.

Sir P. M. Khareghat made the following observations in regard to agricultural policy:—

"I am very grateful for the several useful suggestions that have been made by the members. I do hope they have read the memorandum issued by the Imperial Council of Agricultural Research containing the plan of agricultural development and animal husbandry and also the recommendations made by the Policy Committee on Agriculture which met in June last. One of the important suggestions that has been made is we should study various subjects. In particular reference has been made to the study of periods of unemployment and under-employment, the study of labour conditions, study of the Acts on land tenure and production. All these points we have in mind and we are seriously thinking of setting up a Board of Agricultural Economics to take up studies of this kind. But what I should like to emphasise is that we cannot wait until these studies are complete and we must carry on with our development work, otherwise it will mean that the whole development work will be held up for years and years. Therefore we intend to push on with our plans irrespective of the studies and in the light of the results of those studies we will make such amendments in our plans as may from time to time be necessary.

"The next point suggested by several speakers is in connection with the land tenure system. We realise that there are many difficulties in connection with that. We wrote to provinces some months ago and the attitude of most of the provinces is that they do not wish to raise this bogey at the present time and the only result of enquiries might be to embitter relations between landlords and tenants. That aspect of the matter has to be borne in mind. The line on which we propose to carry on the work is that we will examine the results of the various systems and carry out experiments in collective farming, in co-operative farming, in farming by the State or by capitalist enterprise in different places and see which of them results really in increased production, because ultimately that has got to be the test of any system. It does not matter to us whether the farms owned are large or small. What will result in increased production is what we have to try and foster to the best of our ability.

"Reference has been made to land utilisation. Here again we have already set up a committee which is going into the whole question of setting up a Land Utilisation Board for this country possibly with other boards affiliated to it in the various provinces. I may here clarify a small point which was referred to by Prof. Mukherjee. He referred to the statement in the report, *viz.* that we are aiming at freedom from restriction to the actual user of the land. Now that phrase was meant to cover restrictions imposed by the landlord on the tenant, such for instance as restrictions against the planting of groves, restrictions against the putting down of wells in his holdings and things like that. I quite see that the phraseology used should be amended so as to make the point quite clear.

"Then there is the question of agricultural debt. We fully realise that that is a very big problem. A committee has already been appointed under Dr. Gadgil in order to make suitable suggestions to us in the matter. But I cannot endorse the statement that has been made that the co-operative system has

failed and is therefore unsuitable. The co-operative system has not been fully tried in this respect and I have not the slightest doubt that if the system is tried along with marketing, when you link up co-operative farming, co-operative credit and co-operative marketing, it will result in very considerable success and if anyone has any doubts on the subject, I would refer him to the conditions of the Sugarcane co-operative sellers' Society in the United Provinces. There you have an organisation which was built up within two or three years and deals with something like two to three crores worth of sugarcane supplied to the factories and they are working extraordinarily well—in fact so well that I understand that they have got no overdues at all and every single pie that has been advanced by this society has been recovered in full and the sale keeps on year after year. I do not think we need be so pessimistic about the future of co-operative societies as Dr. Qureshi. I think that deals with most of the agricultural points that have been raised.

"I would just like to refer one other point and that is the question of population control. It is not my province! But I am interested in it from the agricultural point of view and I have not the slightest doubt that there is no need whatsoever to restrict population in India provided we devote our attention to the adequate increase of agricultural production. We may be able to increase our production by 50% in a very few years, in five to ten years quite easily and it can even be increased by one hundred per cent. In view of that I see no reason why we should take a pessimistic view about our population and try to restrict it, at least at the present stage. On the basis of what we can produce agriculture in India can support at least a 50% higher population than it is doing at present and that fact should be borne in mind before we suggest a reduction of the population."

Mr. Gadgil sounded a note of scepticism and doubted very much how far the estimates (referred to in the plan) prepared under uncertain conditions and hemmed in by handicaps like the absence of adequate data and the uncertainty regarding the time and pace of return from the different types of expenditure contemplated in the plan, would bear any resemblance to the actuals. It was also pointed out by him that the present estimates and assumptions based as they were in an expanding economy of war time and built on war time experience might not be true of post-war period. He also deprecated the procedure of laying down targets and aims for long periods which might not be reached, and suggested the alternative of possible targets and optimistic aims for short periods like the plan drawn up by the Bombay Government which was somewhat on these lines. He emphasised the financial and administrative burden which had to be borne by the Provinces and suggested that the detailed work must be done in the Provinces and the Centre was to take up the over-all co-ordinating rôle.

Dr. P. J. Thomas doubted whether industrial development by itself could create sufficient employment. The basic industries for example did not require many people and our basic industries could be run for some years with not more than 1,00,000 or 2,00,000 workers. He also did not think that secondary employment would take up many men either. He therefore suggested we should also take up other lines whereby employment and purchasing power could be greatly increased. More employment could be found under particular services like transport trades, etc. A large amount of expenditure was also required on items like road making, house building and irrigation works, etc., which would give us more purchasing power and was essential for any rapid development of industry too.

The Honourable the Chairman summed up the whole discussion as follows:—

"I thank you, gentlemen, for a very stimulating and interesting discussion. Prof. Mukherjee has raised the problem of agricultural worker and incidentally the conditions of agricultural labour as perhaps the worst and also the most difficult to ameliorate. I was looking for some

constructive suggestions from him with regard to the amelioration of the condition of the agricultural labourer. Undoubtedly when the standard of living is raised and the purchasing power is also raised, the agricultural labourer must come into his own but apart from that Prof. Mukherjee mentioned things like collective farming, which, I think, he did not very much advocate himself, and also the system of land tenures. Nevertheless personally I am convinced that something or other will have to be done to the system of land tenures and perhaps a systematic inquiry into the land tenures in the different provinces, with a view to their improvement, is absolutely necessary. The Flood Commission Report is being carefully investigated by the Bengal Government and from what I can see I think the day is not far distant when many of the recommendations of the Flood Commission will be actually brought into operation by the Government of Bengal and that will be going a very great way indeed.

Another point that was raised was about fragmentation and uneconomic holdings. There of course is the greatest curse of Indian agriculture but with regard to that also, various provinces are taking measures. The Central Provinces Government has made very good advance with regard to the consolidation of holdings and the Punjab Government has been proceeding along the same lines mainly by the co-operative method and the Bombay Government have recently been considering legislation, I know mainly based on the Central Provinces model. All these things involve a great deal of interference with the established habits and customs of the people. It has got to be done very cautiously and we have got to carry the people along with us. As for the 2,600 calories which Prof. Mukherjee said was inadequate for the agricultural labourer, I should be very happy if the agricultural labourer could get this amount to begin with.

As regards Dr. Qureshī, I do not know whether he had read the report of the I.C.A.R. or what is known as the Khareghat plan, because if he had, I do not think he would have mentioned many of the points which he actually did. Most of the points he made have been considered by the I.C.A.R. report. The subject of the training of personnel was also mentioned. That is a subject which is being considered by the I.C.A.R. It is engaging the attention of Government even at the present moment.

Mr. Adarkar implied, as far as I could make out, that besides economic planning we should also go for constitution planning, thereby encroaching on the sphere of the Sapru Committee, among others. That, I think, is going a bit too far ahead. All that we have said in this report that the plan is necessarily based on the present constitution because we do not know what the future shape of the constitution is going to be. The question of population is an extraordinarily thorny one. We have already seen two diametrically opposite views advanced in this very room within the last half hour. I may say that I hold definite views on the subject and my view is the restrictionist view. If I could possibly devise some means of restricting the population of India I should be very happy but on the other hand there are my friends who hold diametrically opposite views.

Then a great point was made by Mr. Adarkar when he said that we should maintain the total level of Government and public expenditure at the present level. I may say that Government is in entire agreement with this proposition because to my mind it is very necessary if we are to prevent disastrous consequences following the termination of the war. As regards the survey of resources that was mentioned by him, we are already planning the survey of our mineral resources and it is contemplated that the strength of the geological survey should be greatly increased. Similarly, my friend here is contemplating soil surveys. With the help of Sir Theodore, we are also thinking of having the census of production.

Dr. Naidu made the point that we should obtain data industry by industry before going in for the expansion of industries. That is also what we are proposing to do. We are contemplating the formation of a number of panels for the

expansion of various industries or allied groups of industries and one of the first things that we shall do in connection with the work of these panels is to obtain information with regard to the existing production, export, import, future possibilities and so on for every individual industry and then plan its expansion. Standardisation of products is one of the things which is also engaging our attention and the Industries and Civil Supplies Department are putting up a bureau of standards for the purpose.

Dr. Rao raised the question of transition from war to peace and one of the points he made was that we should give first priority to consumption goods. As pointed out by my colleague here, in the case of most of the consumption goods, the demand is not a cumulative one, so that I do not go quite so far as Dr. Rao has contemplated. To my mind the first priority, barring just the immediate period of transition, should be given to capital goods and power. That is of course a question of difference of opinion.

Prof. Gyan Chand saw certain trends towards socialism in this report. I have no quarrel whatever with his reading of our intentions. A minimum standard of living for all is our ultimate ideal and if that ideal is to be attained, it would necessarily mean a levelling of incomes.

With regard to industrial planning, he thought that we had left the initiative to industrialists. That again is not exactly correct, because as I have just mentioned we are contemplating the establishment of 29 panels to deal with the question of the development of different industries, so that it cannot very well be said that on this question we have left the initiative entirely to the industrialists. The industrialists have their own part to play in the development of the industries of the country, as has been mentioned in this report. At the same time Government has taken the initiative.

Then Prof. Gyan Chand made an interesting point with regard to public corporations. I wish he had been here. I would then have asked him something more about public corporations. That is a matter that has been engaging our very earnest consideration but the subject requires to be carefully thought out. He stated that Government would maintain the present war level of taxation in the post-war period.

Mr. Gadgil had a pessimistic note to sound. He thought that all these estimates were made under conditions of uncertainty and in the absence of adequate data. Well, therein I agree with him. One of our greatest troubles is the absence of statistics and the absence of adequate data and it is not possible within the immediate future to deal with this deficiency adequately. We have got to begin our planning with inadequate data but that is a difficulty which cannot be helped. We are considering the question of reforming the whole system of statistics in India. That is a long term problem and will take some time. He was under some misunderstanding in thinking that we have estimated that things like roads, public health and other services will yield returns within the first five or ten years. We have not contemplated anything of the kind at all. Mr. Gadgil was also sceptical about the estimates of revenue surpluses, which the Government of India have framed. They have been careful to say that they are based on certain assumptions. The world conditions or political conditions may render the fulfilment of those assumptions difficult or impossible. In that case, undoubtedly those estimates will not be realised. No one has given any assurance that these surpluses will materialise. They will only materialise if those assumptions come true. Then he said that instead of laying down targets and aims, a better method would be to assess the possibilities, even on an optimistic basis, if necessary, and in doing that he commented on the Bombay Government plan and recommended it for our adoption. That is the line on which we are also proceeding but that is exactly the reason why in the public and particularly in the Press we are being assailed vehemently. One of the criticisms that is frequently advanced is that we have got no plan, no ideals, no

targets, no aims. I have been trying to impress on the public the lines on which we are proceeding. It is not so very spectacular but at the same time I may say that we have recommended the Bombay Government plan to all other Provincial Governments and the estimates which are framed by the Provincial Governments are of the same order or magnitude as the estimates of the Bombay Government plan, so that I hope Mr. Gadgil will realise that we are not proceeding in a vacuum or in such a manner as to subject, if not ourselves, at least our successors to very severe criticism on the part of the public.

"As for Dr. Thomas he has doubted that the question of full employment is not going to be solved by intensive industrialisation. That was a point which engaged the attention of the Bombay planners also. For that very reason they have recommended the adoption of cottage industries and minimum scale industries and industries of a kind which do not require such capital intensification as some of the more highly technical types of industries would require. It would mean a larger number of men are employed, although the output is correspondingly small. The surveys will naturally go on side by side with the development of industries. I understand that Dr. Thomas is a great advocate of public works. That is a point which has not been lost sight of. In the conditions of transition from war to peace, public works will certainly form a very important item in providing employment of labour. That concludes this particular item on the agenda.

"The next item is a small one for the appointment of the Sub-Committee which may be called the 'General Purposes Committee'. As I explained in the morning, my object in forming this Sub-Committee is to have a body of economists who will be in constant touch with me and would help me in formulating the plans, particularly in planning the whole thing, and in giving me their advice with regard to certain difficulties, *e.g.*, the want of statistics, the want of data, questions of priorities, the priority to be assigned as between agriculture and industry or as between capital goods industry and Consumption goods industry and various problems of the kind which have just now been raised. For that purpose, we would very much welcome the advice of the economists who might perhaps meet once a month and help me. The Committee that I propose is a small one. I suggest the names of Messrs. Vakil, Gadgil, Ghosh, Gyan Chand and Dr. Rao with Sir Theodore Gregory in an official capacity."

The meeting then came to a close.