

CONTENTS

Preface	Pages
1. Presidential Address to the Twenty-fourth Session of the Indian Economic Conference, Mysore, 28th December 1940.	1-22
2. Foreword to "Population Problem in India : A Regional Approach" by N. V. Sovani	23-34
3. A Note on Agricultural Rent	35-43
4. Foreword to "The Aborigines—"So-called"—And Their Future" by G. S. Ghurye	44-50
5. Rail-Road Coordination with Special Reference to Rates Policy	51-60
6. Memorandum on Scales of Salaries submitted to the Central Pay Commission	61-72
7. Social Legislation and Plans of Improvement	73-78
8. Wartime Controls and Peacetime Ends	79-86
9. Introductory Note to "Economic Effects of Irrigation"	87-99
10. Foreword to the "Report of the Commodity Prices Board" Edited by N. V. Sovani	100-107
11. The Economic Prospect for India	108-121
12. Notes on the Government of India's First Five Year Plan	122-144
13. Some Requirements for Technical Progress in Asia	145-152
14. Pre-conditions of Economic Development	153-159
15. Economic Development of India	160-200
16. Peasant-owned Sugar Factory in Bombay State—A Unique Experiment in Co-operative Enterprise	201-214
17. Presidential Address to the Fifteenth Annual Conference of the Indian Society of Agricultural Economics, held at Allahabad on December 26-28, 1954.	215-248.

PREFACE

This publication represents a somewhat miscellaneous collection of my writings on various economic subjects. The bulk of the writings deal with problems of economic development and of economic policy of the State, with particular reference to India. The period covered by the writings extends from the time when the shaping of Indian economic policy in the light of Indian interest alone could yet not be conceived as immediately possible, to the eve of the Second Five Year Plan of national development of Independent India. The writings may be found to be of interest as representing the evolution, if any, of the thoughts of a student dealing with somewhat similar problems at various points of time during this period, and also, perhaps, as illustrating the point of view of an economist who has his roots in an under-developed economy.

The writings have been reproduced in the original form and no attempt has been made to correct any mistake of fact or inconsistency of expression that might have occurred.

I have to thank those, in whose publications, these writings were originally published, for permission to reprint them.

Gokhale Institute of
Politics and Economics,
Poona —4.
12th May 1955.

D. R. GADGIL

1

PRESIDENTIAL ADDRESS TO THE TWENTY-FOURTH SESSION OF THE INDIAN ECONOMIC CONFERENCE, MYSORE, 28 DECEMBER, 1940.*

Your Highness, Ladies and Gentlemen,

I have to thank the members of the Indian Economic Association for having elected me President of the Association for the year and for having thereby conferred on me the privilege and the honour of presiding over this, the 24th session of the Indian Economic Conference.

The Economic Conference meets today in this historic city under the shadow of two great calamities—one domestic and the other universal. In His late Highness Maharaja Sri Krishnaraja Wadiyar Bahadur India has lost a noted personality of modern times and this State one who may be verily termed its maker. On this occasion all that need be said is that in the practical solicitude for the welfare of his subjects, in the discriminate and happy choice of ministers, in the love and patronage of learning and the arts the late Maharaja ably represented and carried on the noble tradition of the Kshatriya rulers of the Deccan. I may add that of his successor we confidently expect no less.

The world has now lived through more than a year of a war which has involved a larger extent of territory and peoples within it than any previous war in history; and it would be a mere truism to say that the crisis through which we are passing will materially influence the future trend of human history. At such a juncture the confabulations of academicians are apt to appear especially unreal to minds that are almost always a little impatient of them. The sanguine expectations entertained of the spread of reason by the founders of our science have failed to materialise and wars continue to be waged even though it may be conclusively proved that they bring material gain to no party. But this is no reason for despair. Humanity has come through similar crises in the past. Progress has not always been uniform or unimpeded

* *Indian Journal of Economics*, April, 1941.

and human history has had its dark ages. Through it all, however, a continuous strand can be discerned which represents the progress of a rich and growing tradition. This tradition represents the working faith of those who would look to a solution of human problems in a close and sympathetic understanding of the natural and social forces among which we live. The majority of those assembled here share, I believe, such a faith and a crisis like the present makes all the more urgent the call on us to live by that faith. So that those of us who are unable to take an active part in the struggle that rages round us many at least feel that they are doing their bit in fitly carrying on the intellectual traditions which we profess to inherit.

It has been a common practice of my predecessors in office to pass under review during the course of the annual presidential address a large number of questions of current interest. I intend, however, to depart from this practice and to take up a single, though somewhat wide, theme as the subject of my discourse. The theme I have chosen is the consideration of the manner in which the economic policy of the State in India should be moulded. The definition of the principles of public policy on economic questions is always of the highest importance and it is particularly important at times like the present. The economist has always claimed to speak with authority on this matter. The founders of our discipline—the Physiocrats and Adam Smith—were concerned intimately with the definition of the attitude of public authorities towards economic life and the extent and the methods of regulation to be exercised by the State over it. Indeed, it may be said that the search for the criteria of economic policy was the motivating force of their intellectual activities. Discussions regarding public economic policy have played a dominant part throughout the subsequent history of economic thought. In recent years there has, no doubt, emerged a school of thought which would divorce, almost entirely, the connection between economic science and public policy. The actual behaviour of the majority of the protagonists of this school, however, belies their protestations. For, some of the most strenuous of them are among the most prolific and the most emphatic in the expression of opinions on matters of immediate public interest. Obviously the only title to consideration from the public to which academic economists can lay claim is that acquired by their study of economics. If, therefore, the “pure” economists behave as if in their opinion the study of economics entitled them to say something on current problems which was worth a hearing

from the public, this can only be because there subsists some connection between the study of even "pure" economics and public policy. This problem, then, of the end and means of public economic policy has always been one of the main objectives of the economist's quest and continues to hold the position even today.

To the question whether there are any definite criteria of public policy which economics lays down the economist has until very recent times been wont to give an unequivocal answer. It has usually been wont to give an unequivocal answer. It has usually been axiomatic with him that the welfare of the largest number was and should be the proper goal of economic activity and that this was best attained in a society in which the activities of the private individual were interfered with as little as possible. The doctrine of *laissez faire* and economic science were born together and have until recently been inextricably associated. During the last few years doubts have been cast on many of the assumptions on which the doctrine of *laissez faire* has been founded and academic economists have been chary of making the assumptions in their analysis. It has, for example, been argued that the concept of welfare should be banished from the field of economics as it was based on reasoning that was not scientific. And some economists have been so impressed with the objection that a considerable amount of ingenuity has been expended on proving that welfare economics, which after all represents the chief body of thought with which most except the "purest" economists are chiefly concerned, can be retained within the fold without making the unscientific assumptions. On the other hand, there is also a growing body of thinkers who feel that the assumption that a minimum of interference leads to a maximum of welfare is itself not justified. However strong these dissentient trends may have shown themselves in modern times, the main body of economic thought is still deeply under the influence of the doctrine of *laissez faire*. Economists when writing on public policy habitually take the *laissez faire* assumptions for granted and the models of the economic theorist are so constructed as to lead to *laissez faire* conclusions. Indeed, whereas one result of the Great Depression has been to move public policy and some economists away in most countries from *laissez faire* it has also led to a revival of some characteristic *laissez faire* dogmas in an acute form in the academic world. I do not think that it is necessary for me to give examples of the dominance of academic economics by assumptions which

lend support to *laissez faire* or of the bias towards it in the writings on policy of economists in general. But some remarks may certainly be made regarding the modern version of the older doctrines which has played a considerable part in the writings of economists during the last ten years or so. There is yet no uniformity in the formulation of this modern version ; as a fact, it is usually to be found only implicit in the analysis. I may, however, cite for illustration certain explicit statements recently made in regard to it by Mr. Harrod.¹ Mr. Harrod treats of the competence of the economist to give advice and is discussing the limitations on the validity of the advice tendered by him. There are in his opinion certain directions in which the advice has unqualified validity and is universally applicable. The great merit of Adam Smith according to Mr. Harrod lies in his having found the one criterion which enables the economist to judge of policies and actions infallibly. Mr. Harrod calls this the "Economic Criterion" and defines it in the following manner. "If an individual prefers a commodity or service X to Y it is economically better that he should have it. Similarly if the individual prefers work X to Y or dislikes it less it is economically preferable that he should have it." This constitutes, we are told, the economist's criterion of good or bad. But surely it is merely the substance of the old *laissez faire* doctrine under a new guise. This definition of the "criterion" raises many problems. Firstly : What is the meaning of "economically" better ? What can constitute the economist's "good" ? Are not terms being used here which are connected essentially with the process of valuation ? Can anything be called economically good or bad, as say chemically or biologically good or bad, without the intrusion of extraneous values which have nothing to do with the scientific study of surrounding phenomena ? Having first decided that economics is not a normative science, this looks like an attempt at prejudging questions of public policy by introducing by the back-door normative considerations in a definition of the economic good. The definition again embodies typically *laissez faire* prejudice. The "criterion", let us note, is said to be of universal validity. But men have in large numbers habitually preferred drugs and drink, unhealthy food and overwork ; all action taken to prevent them from having their hearts' desires in these directions would then have to be described as

¹ R. F. Harrod, *Scope and Method of Economics*, *Economic Journal*, September, 1938.

economically "bad" and the "Opium War" could be characterised as one undertaken in pursuit of the economic "good". Again, why should the preferences of individuals be taken to be axiomatically supreme and why should the criterion entirely neglect the group or the society? It is difficult to discern any "economic" reasons for this definition of "economic criterion" and Mr. Harrod offers us none, though he insists that advice based on the "criterion" will be free from "ethical bias". I do not desire to discuss at length Mr. Harrod's attempt at defining the economic criterion. My purpose in drawing attention to it was merely to emphasize the hold of the *laissez faire* attitude on economic thought even today and the curious ways in which it manifests itself. Most academicians seem yet to believe in a presumption in favour of *laissez faire* and seem to think that the onus of the proof is necessarily on the shoulders of those who would not agree with their assumptions. The attitude of Prof. Viner¹ who frankly states that the economic and political formulations in the liberal tradition are dogmas and not axioms is yet too rare and the opinion expressed by Mr. Keynes years ago that problems of policy cannot be settled on abstract grounds but must be handled on their merits in detail is yet unheeded.² Though the academicians are still ruled by traditional beliefs the trends in public policy have been decisively reversed. During the last two decades events have increasingly conspired to move governments into policies of greater and wider interference. This movement has reached a climax during this last year when we have found the "Economist" newspaper—the very home and citadel of the liberal tradition in economics—supporting vigorously such heterodox doctrines as that of a "National Minimum". In this country, however, those in authority still cherish the old dogmas and over our economic destinies rule those who openly express contempt for the tradition in Indian economic thought which has ventured, for many decades past, to express dissent from them.

I do not desire to detain you long with a discussion of the familiar theme of the operation of *laissez faire* in India during the last 100 years. The fruits of what may be called the obviously "interested" version of this doctrine represented, of old, by the cotton excise duty and in recent times by the "economic safeguards" lie outside the scope of my subject. I shall further not talk about policy in relation to trade

¹ J. Viner, *Short and Long Views in Economic Policy*, *American Economic Review*, March 1940.

² J. M. Keynes, *End of Laissez Faire*, London, Hogarth Press, 1926.

and industry where also "interest" may be said to have entered to a greater or less degree, but shall deliberately choose for illustration one or two extensive fields where *laissez faire* may be supposed to have been worked without any bias or prejudice. The development and the working of the rural credit system in India offers a specially instructive example. We can here witness the results of a rapid transition from conditions of restraint imposed by laws and by social conventions to a state where there was complete liberty for the borrower to ruin himself and for the creditor to exploit him mercilessly. The classic description of the debtor-creditor relations created by the joint operation of *laissez faire* and the British judicial and administrative system is that contained in the report of the Deccan Riots Commission. This is the first vivid official account; later studies in various parts of the country have added to it much in detail and the elaborateness of analysis but the essentials of the problem remain as then disclosed. The fundamental factor in these relations is the great disparity in knowledge and economic power between the two parties; so that, where the disparity is the greatest the results are the worst. It is in the more precarious and poverty-stricken tracts that the moneylender is decisively dominant; and where, as in the case of the aboriginals, these conditions are accentuated by habits born out of a traditional primitive life the borrower is often no better than a serf.¹ The failure of a policy of *laissez faire* to generate corrective forces, even in the very long term, is only too obvious over the whole field of Indian rural credit.

I would, in this connection, draw special attention to the intrusion and the spread of the non-indigenous moneylender in many parts of rural and urban India. Here again the poorer the tract or the class the more in evidence is the non-indigenous moneylender. The rural type is the earlier and is well described by the Deccan Riots Commission. The urban type takes rise later and culminates in the terrorising bully whom all students of labour conditions, especially those of industrial labour, agree in considering a social pest needed to be eradicated immediately. We shall leave it to the champions of *laissez faire* to discover the services to society of the non-indigenous moneylender which justify his emergence and spread; for, he certainly brings neither technical skill nor capital into the locality. To me his chief asset seems

1. For a recent official description see Symington, Report on the Aboriginal and Hill Tribes of the Partially Excluded Areas in the Province of Bombay, Government of Bombay, 1939.

to be his ability to disregard the conventions and the decencies by which the social group, in which he finds himself, is bound and his willingness to take the extremist measures within the law and, if possible, even outside it. With this advantage he is able to oust the indigenous money-lender in all the poorer and the socially less integrated communities; and wherever he flourishes he is a force making for further social disintegration.

A parallel to these circumstances of our credit system can be found in the West chiefly in the field of consumption loans in the big cities. It is noteworthy that the need for regulating this field severely has been felt in most of the advanced countries and that in U. S. A. "small loan" legislation has evolved, in most states, a strictly supervised system of licensed and controlled moneylending.

Another large field in which the failure of the usual *laissez faire* assumption may be shown to be markedly evident is that of the wages of industrial labour. The traditional market analysis yields the result that payments for similar services will be the same and it has been usually taken for granted that payments to the various types of workers in given occupations or industries in a locality or a region will tend to uniformity. This trend should further be specially marked among workers in modern large scale industry who are concentrated in a few important centres. The data regarding wages paid to industrial workers in India reveal a state of things which is at considerable variance with the results of this market analysis.¹ Except where some measure of collective bargaining or external regulation is present, large differences are found to exist between the scales of payments to workers engaged in even contiguous establishments and no trend can be observed towards the disappearance or reduction of such differences. The forces which are usually said to make for a disturbance in the working of a free market for labour in other countries have mostly been absent in India. Trade Unions have been either absent from large parts of the field of industrial labour or, where present, have been mostly ineffective; employers' organisations have also not usually paid any attention, till very recently, to the regulation of wage rates and the State has done nothing. And yet in this market, subjected to almost no influence or interference from outside, one finds conditions which can only be described as chaotic.

¹ This statement is based on an examination of recent data relating to industrial wages in India which I undertook in another connection.

This leads me to suggest that in the actual world, free market analysis works out as supposed only under a given set of social conditions. For example, in England, where most of these ideas were first formulated wages were, for the greater part of the nineteenth century, influenced over a large part of the industrial field by custom and convention. Entirely apart from the influence of Trade Unions, the Webbs have pointed to the extensive area covered by "shop bargaining," by "custom of the trade" and by local "working rules." One suspects that it was more these, than the fact of a free labour market, that brought about and maintained such state of order as appeared in English wage payments in the nineteenth century. English labour in the modern machine industry, especially skilled labour, never lost the organisational traditions of the earlier period and these grew in volume and influence with the progress of the century. In India, on the other hand, there was no such continuity of tradition; industrial labour grew up mostly in new cities and was recruited from diverse regions, diverse occupations and from all strata of society. This heterogeneous mass was again not stable in its composition for any long period. Hence it, and in a somewhat similar manner the class of employers also, ideally fulfilled the requirements of free market analysis. The result lends support to the view that except under appropriate social conditions *laissez faire* does not lead to order but, as one would naturally expect it to do, to chaos.

I may now go on to a consideration of another concept closely associated with *laissez faire* which has had and which continues to have a considerable influence on public policy. This is the "universalism" which is implicit in traditional economic analysis. The international liberalism of the eighteenth and nineteenth centuries which dominated the development of modern economic analysis is based on what Prof. Robbins has termed the "cosmopolitan utilitarian calculus".¹ Let us realise clearly what the academic economist in Europe means by the cosmopolitan calculus. By the cosmopolitan calculus is not meant a careful calculation of the effects of given policies pursued by individual nations on the particular circumstances of the different peoples and nations in the world. Such a concrete study is entirely foreign to the

1 Prof. L. Robbins, *Economic Factors and International Disunity*. [World Order Papers, The Royal Institute of International Affairs, 1940.] It is interesting to observe Prof. Robbins deploring, in this connection the disregard of the utilitarian calculus the prestige of which in economic analysis he has done so much to undermine.

notions of these economists; indeed, if attempted, it would have revealed to them the great difficulties of the cosmopolitan calculus and the impossibility of finding a uniform basis on which to conduct the calculations. The cosmopolitan calculus of the international liberal was based on the hypothesis of a uniformity of world conditions and meant merely the generalization of such causal relations as may be discerned in the working of the economy of an advanced European nation. Beer has pointed out that the universalism of the Physiocrats is derived largely from medieval schoolmen.¹ The chief argument advanced by Quesnay, for example, against the mercantilist notion that one can profit in trade at the expense of another was that a good and a just God has wished that it should not be so. Quesnay had further no opinion of the merchant engaged in international trade and thought of the financier as a stranger in his own land. Adam Smith's beliefs had not the same medieval and theological bent; they were dominated by the naturalistic concept of the "invisible hand". It is noteworthy, however, that this confidence in the beneficent working of natural forces did not lead Adam Smith to ignore the realities of the situation, as witness his acute analysis of the working of the government of the East India Company and its officials in Bengal.² None of the classical economists or their followers in the nineteenth century exhibited, however, this faith or this vision; their universalism was for the most part merely an assumption implicit in their analytical procedure, an assumption which was rarely explicitly stated or defended and whose nature was never properly explored. If these economists had been endowed with the same vision as Adam Smith we would surely have found at least one of them explaining how the nature of British interests in India and the structure of their administrative machinery made it impossible for the government to smoothen the transition from one economy to another in this country.

While the genesis of this peculiar "universalism" is clear its dominance and continuance till very recent times needs explanation. It is a commonplace of the history of human thought that notions are widely accepted and popularly believed not because they can be proved to be logically valid but because they work. In retrospect, it may appear strange that such beliefs were once held but contemporaneously they derive their strength from their being efficient instruments in building

1 M. Beer, *An Inquiry into Physiocracy*, London, G. Allen & Unwin, 1939.

2 Adam Smith, *Wealth of Nations*, Bk. IV, ch. VII. J. M. Dent, London.

up concrete workable policies.¹ The universalism of Anglo-French thinkers was in this manner justified by its fruits; it worked. Or, to differentiate between the two, it may be said that the French belief in universalism continued to be found in an abstract philosophical idealism while the British belief had a more solid and practical basis. The French interest in international trade or technological advance was, throughout the period, of a comparatively minor importance. To the British, however, their universalism was a practical necessity. At the beginning of the nineteenth century the British were leading the world in material production technique to an extent unparalleled in modern history. The greater the field over which they were able freely to operate, the greater the extent to which they reaped the fruits of this advantageous position. Prejudices, however, die hard and it was not till the nineteenth century was considerably advanced that universal free trade was, even in England, fully accepted and operated upon. The fruits of the policy were, however, too obviously good and plentiful for it not to secure general acceptance. This explanation is rendered the more plausible by the subsequent history of English ideas on the subject. The loss by England of the decisive leadership in technology towards the end of the century leads to a change, first in emphasis and then in fundamental ideas. It may be admitted that the position of the bulk of the economists and intellectuals was unchanged till about 1920. But the course of the last two decades has revealed interesting developments. Among living economists there is perhaps no one who can sense as keenly as Mr. Keynes the inwardness of passing events; and it was he who in his *Economic Consequences of Mr. Churchill* (London, Hogarth Press, 1925) first put forward an English case in favour of discarding universalism in the monetary sphere. And when some years later his predictions were proved only too correct he came out openly in favour of national self-sufficiency in this respect. A surprisingly large body of English economists immediately agreed with him and thus ended the sway of the notion of universalism. For, you cannot interpret the

1 It is not necessary to resort to the materialistic philosophers in order to find support for this proposition. Cannan (*History of the Theories of Production and Distribution*, London, P. S. King, 1924) has, for example, conclusively shown that while the ideas of the Classical Economists were scientifically unsatisfactory they were excellent tools for dealing with the immediate concrete problems of the Poor Law and the Corn Law. Whitehead (*Science and the Modern World*, Cambridge University Press, 1927) puts forward an analogous proposition in wider context.

brotherhood of man sectionally and uphold universalism in one sphere while rejecting it in another.

It is too simple an explanation of this revolution in ideas to talk of it in terms of a betrayal or an aberration on the part of the intellectuals. Truth to tell, the roots of this belief were never too deep and its character was always formal. I may illustrate this by referring to the development of economic thought on the subject of what has come to be called "technological unemployment." The subject has naturally received the attention of economists from almost the beginning of the industrial revolution, but its consideration was for the larger period conducted under somewhat peculiar conditions. The economists when discussing this question always took the long view. This was not only because that was what the economist habitually did but also because the short term effects of technological changes were not fully felt in the countries in which the industrial advance was taking place. For the greater part of the nineteenth century the bulk of the unemployment resulting from industrial advance was evident in countries outside the advanced countries of the West and only the expansionary effects were felt within their areas. The adverse effects of the mechanisation of the cotton industry, for example, were, except for a short period in the beginning, felt chiefly in the distant continents. The same was the result of the growth of the metal and engineering trades. On the other hand, the increased demand for machine-made goods from distant peoples was reflected in a steadily growing employment in the new industries in these pioneering countries. The economist could, therefore, content himself with pointing to the obvious benefits, in the long run, of the technological revolution without troubling himself with the length of this period or the misery that might be caused in the intervening years.¹ The nineteenth century economist confined himself optimistically to the long view not because he shirked from thinking of the short period but because during that century, when the wheels of progress ran smoothly, there was no need to concern oneself with a shorter or a more critical point of view. It is only recently

1. This aspect was not so neglected by the English writers in the earlier part of the 19th century as later. But then it should also be noted that they did not resort to the cosmopolitan calculus. For example, Babbage when writing on the exportation of machinery (*Economy of Manufactures*, London, Charles Knight, Pall Mall East, 1833, Chap. XXXIV) advocates free exportation not because a spread of the new technique was in the interests of humanity but because, for a variety of reasons, such exportation could not harm English interests.

that the spread of modern industry to other countries and continents and the continued progress of inventions have brought home the difficulties acutely.² That is why there has been in recent years more consideration given to the immediate unemployment caused by the progress of technology, as apart from the larger employment it may ultimately create; and in this latter respect also the verdict is not so emphatic as it used to be once. Even so the industrial countries of the West have experienced nothing like that entire upsetting of the traditional economy without compensating alternatives which has been our experience for a century. The nearest to this experience that they have approached has been in the field of agriculture, where the technological changes in Colonial agriculture, have impinged disastrously on the peasantry of many European countries. Even the modern refinements in the analysis of technological unemployment do not take into account the large variations in the incidence of this unemployment as between country and country. And yet to us in India these differences are the most striking feature of the situation. To us the technological revolution has meant chiefly the successive loss of avenues of employment. And this experience must continue with the constant progress of technology as long as the disparate position continues. Wherever either social, political or geographic factors prevent the wide adoption of modern technology the impact from outside of its products must lead to unemployment without necessarily resulting in sufficient compensatory action. These aspects of the question rarely receive their due attention and the analysis is carried on on the hypothesis of universalism because it postulates fit, approximately, or used to fit the facts in the Western countries.

All these considerations emphasize the fundamental importance, in determining economic policy, of the social environment within which the economic problem is posed. In the field of applied economics the

2 It is part of the topsyturvydom, from our point of view, of western economic thought that when the short-run now receives attention it should be almost entirely in connection with the progress of technical advance in non-European countries. Thus Prof. Staley in his broad and sympathetic survey of world problems cites the following as the most typical example of the occasional conflict of world welfare with the welfare of particular countries. He writes: "The British textile industry, for example, has thus far borne the brunt of the transition occasioned by the increased efficiency of Japanese textile-making". (E. Staley, *World Economy in Transition*, 1939. New York, Council of Foreign Relations, p. 92). There is not a word about the heavy transition costs that countries like India and China have borne for over a century and still continue to bear ! !

social background is all-important, especially when there is an attempt, as has happened throughout the last 150 years with us, to apply the theoretical analysis formulated and the lessons of experience gained in one country to another very differently circumstanced. The economic history of modern India affords many examples to illustrate this statement. Consider, for example, the first important step in economic policy taken by the English in India—the establishment of the Landlord System. While the peculiar character of the system introduced in Bengal was no doubt the result of particular, local and historical circumstances men like Lord Cornwallis may well have thought of the great benefits that the landlord system would confer on the land. And this was natural when they had before their eyes the results of the work of private experimenters like Tull or Bakewell and of private landlords like Townsend and Coke. But while the administrators could create the landlords they could not equip this newly created class with the social traditions of the English country gentry—traditions which were peculiar to England and which were lacking even across the channel in contemporary France. The result of the experiment is well-known. Whatever else may be claimed for them, the landlords either in the permanently or the temporarily settled provinces have not functioned as pioneers of agricultural improvement.

The difference made by the political and social environment is even more strikingly brought out when we consider the nature of the development of modern industry in India. Veblen has pointed out that the acquirement of the "premises and logic" of modern technology is a sufficiently simple matter and that in the process of this acquisition the borrowers have certain advantages over the originators. In an acute analysis he lays bare the factors to which was due the advance made by German industry in competition with the British. Apart from the absence of conventional restrictions or obsolescent equipment the German industry possessed at the start certain special advantages. These were, an educated middle class with an intellectual habituation favourable to the ready acquisition of modern technology, a sufficiently well-instructed force of operatives and workmen and the fact that the German adventurers in the field of business were captains of industry rather than of finance who were accustomed by tradition to be content with a relatively low return.¹ Similar favourable circumstances obtained

¹ Veblen, *Imperial Germany and the Industrial Revolution*, London, Seekers and Warburg, 1939, Chap. VI.

in the case of Japan also. The policy of the Governments in the two countries also actively influenced the course and pace of their industrialisation. In this vital matter the predisposing social and political conditions are thus seen to have very considerable influence. This is true of India also; the course of such development of industries as has taken place in India has been largely moulded by our social and political environment. In their aptitude for taking to modern machine industry both our educated and our working classes inherit traditions and have characteristics very different from those currently attributed to Germans. And even more important than this is the fact that the large majority of our industrial capitalists are recruited from the ranks of those whose traditions and habits of thought have been formed in the vocations of the money-changer and the financier. It would be easy to show how all these circumstances have had their share in shaping, in the past, our industrial history and how they continue today to dominate the situation.

The development of economic ideas since 1920 has sometimes been called "neo-mercantilist". But if by the mercantilist tradition is meant the tradition of the social thinker to speculate in relation chiefly to the concrete problems of his environment and to think of the good of the collective group of which he is a member there is no reason to state that there ever was a break in that tradition or that it survived only in some countries and not in others. And let me state this, that I do not feel that the social thinker is to blame in ordinarily adopting this point of view. Except in the realm of abstract speculation the specific local circumstances are of the utmost importance in all social studies, and it is but natural that the turn that social sciences take in a country should very largely be determined by the environment in which the students find themselves and the urgent problems which they are called upon to tackle. When one frankly accepts this point of view the peculiar nature and the particular trends of the Anglo-French and latterly the Anglo-American tradition in economic thought becomes clear and it becomes unnecessary to charge the British economists with hypocrisy. It becomes at the same time evident that the application of the lessons of British experience and of the views Anglo-American economists have distinctly limited validity.

I may conclude this part of the subject with the observation that we must reject the *laissez faire* bias in economic speculations, reject the pseudo-universalism which consists merely in the assumption of a uniform set of conditions as ruling in the world without enquiry

into the differing needs and circumstances of the various peoples, and we must beware of the immense difficulties involved in the application of the results of theoretical analysis to practical problems. And as Mr. Shove says, we must remember that "the economist who knows his business relies in the main on disciplined and informed common sense", and that "the more he knows about men and their ways the surer will be his touch in making the necessary judgments".¹ Mr. Shove also proceeds to point out that the student, if he wills, has much greater opportunities of acquiring and properly analysing such knowledge than the practical man.

Modern apologists of *laissez faire* tend usually to argue that *laissez faire* does, in the long run, operate well and bring about a stable equilibrium and that its shortcomings are glaring only for the period of transition. This sort of reasoning seems, however, to miss the very core of the situation. In a stable or static economy where changes did not take place at all or took place only very slowly the concept of *laissez faire* is extremely unlikely to originate. A quasi-static society is bound to be dominated by concepts of order and of just price. *Laissez faire* is a prescription essentially for a changing economy. Its chief claim is also founded on its efficiency in directing changes in the most advantageous channels. Now, a changing economy under modern technological conditions is an economy which is perpetually in a state of transition. To say then that *laissez faire* fails only in periods of transition is effectively to give up the whole case in its favour. The fact of the matter is that *laissez faire* does not suit all types of changing economies; it suits only one phase of the change, that phase in a country when the transition from one economy to another is brought about under conditions of constantly growing prosperity. It thus suited the England of the nineteenth century or U.S.A. when the resources of that country seemed limitless. The condition of India has, however, been for the last century and a half very different and continues to be different. Throughout this period India has been bearing the brunt of the results of the technical progress—both agricultural and industrial—in other countries. Its internal situation has been such that it has not found it possible to go a long way in adopting modern technique. Hence each important fresh advance in technique has created for us problems of unemployed resources and men. The

1 G. F. Shove, *Economics and the Social Sciences* in "*The Social Sciences, their relations in Theory and Teaching*," p. 160, (1936).

government in India has done nothing to smoothen the progress; it has, on the contrary, perhaps done something to aggravate the difficulties. The entire period has been, therefore, one of grave difficulties. Such advantages as have accrued to us have been mostly incidental and accidental; they have for the major part been incidental to the industrialization of the other countries and to the cheapening of manufactured goods. The period of technical change, so far as one can look into the future, is by no means nearing its end and we may expect a continuous alteration of the technical structure of industry and notable advances in agricultural methods. As such changes are always found to be predominantly to the advantage of highly capitalised and technically advanced societies in relation to those backward in these respects. The changing economy of the near future will present to India, problems essentially similar to those encountered by us in the recent past. A national economic policy for our country must, therefore, be one which is suited to a period of transition; the character of this period of transition we can envisage from our experience in the past.

It is not my intention to discuss in detail the manner in which such a policy could be built up or the main features that it might exhibit. In order, however, to illustrate what I mean by a national policy suited to a changing economy or to a perpetual period of transition I shall refer briefly to certain aspects of it which I feel to be important. I would put in the forefront, the problem of Relief. I suppose it will be readily agreed that an outstanding feature of a changing economy is some measure of insecurity. This insecurity will appear chiefly in the results of the employment of resources. In view of constant changes that may be taking place nobody can rest assured about the continuance of the profitable employment of natural and capital resources or of labour. A change may lead to an almost sudden cessation of employment in certain directions as happened in the case of indigo growing and manufacture, or it may mean a continuous deterioration in the conditions of employment in a particular industry over a long period as has been happening for over a century in the handloom industry or it may mean the cutting off of a resource and the upsetting of the balance of the economy of a class as happened after the introduction of motor transport in those tracts where the peasantry relied partially upon the earnings from carting. We are today facing the problem created by the accumulated effects of a series of such changes. This has rendered the Indian problem of the unemployment of men and resources not so much cyclical as chronic. In

the circumstances, the primary social responsibility is, of course, that for the relief of distress caused by this historical process. In most countries even of the western world poor relief has been traditional and unemployment insurance in one form or another covers an ever widening field in recent years. In India the only measure of this character adopted has been the opening of famine relief works by government at times of widespread failure of crops. The incidence of this relief is, however, occasional and it is further available only in times of failure of crops due to natural causes and not in other times of agricultural distress as, for example, that brought about by a collapse of prices. I do not think that it is necessary to argue the case for the urgent need for the introduction of some general system of poor or unemployment relief in India. The question, however, is rarely mentioned except sometimes in connection with industrial labour; and the method or the cost of such a measure are subjects which have not yet been adequately discussed. I am personally led to think that the best way of meeting the problem is to follow the same methods as those devised by the famine relief administration. Instead of framing programmes of relief works which are resorted to only occasionally there should be continuous schemes of annual public works which would afford the necessary employment and relief. The provision would be necessary chiefly in the off-season of agriculture. There should be no dearth of suitable items for such a public works programme. The extent of the construction of roads, embankments, wells, tanks, or work of afforestation, etc., that could be usefully undertaken in rural India is very considerable and this is work that will enlarge in a productive manner our capital equipment. Obviously, the scale on which these annual works are provided would be very much smaller than is usual in a year of famine; they would also not be large concentrated works but local works scattered over the districts. I do not also think that their cost would prove them uneconomic. In other countries where the policy of relief through public works has been found costly that has been largely because of the need of adapting labour, which was mainly industrial, to work to which it was unaccustomed and in some respects unsuited. With us, however, labour seeking work on relief works would be accustomed to the work it would have to do. The provision of work along these lines would obviate many of the difficulties in the way of the administration of relief or insurance schemes on the western model; and this seems to me the best way in which to begin to tackle this problem. I am aware that the cost of such a continuous

public relief-works policy would be considerable; but I am convinced that whatever the cost it must be borne. For, this is a primary responsibility which the society must recognise and the state should take upon its shoulders. It will be realised that what I propose bears no relation to the concept of national minimum. It falls short even of a general system of poor relief. It is merely the belated generalised acceptance of a responsibility for providing work to those seeking it which even the *laissez faire* Indian government of the last century accepted as falling on itself during times like that of a famine. The effects of the changes of the last century have not been uniform; some classes have prospered greatly owing to them while others have suffered. The least that can be expected in a social group is that those who suffer are saved at least from complete starvation. It will, of course, be no use undertaking this responsibility if it means a further increase in the burden on chiefly the agricultural classes and I take it as axiomatic that in any future reconstruction of our economy a correction of the regressive nature of our tax system will be the first to be attempted. There are many other incidental advantages which I consider will follow the adoption of such a public works relief policy. I, however, advocate it here mainly on the ground that it represents the beginning of an essential step in the formation of the economic policy for a changing India.

The second point to which I would draw attention is the regulation of the pace of the transition. It is obvious that the future direction of technological change is unpredictable and the area that it may at any time cover cannot be foreseen. It is, therefore, not possible to keep society in a state of preparedness for the impact of the next set of changes. Further, given the distribution over area of the population, the training for particular vocations imparted to men and the investment in durable capital goods the extent of change to which economic society can adapt itself during a given period of time is limited. The costs of a rapid transition are both material and psychological. It is often argued that each change tends invariably to a somewhat greater economic welfare in the future and the dilemma of a clash between security and progress is posed, with progress being usually taken as obviously preferable. It has, however, to be remembered that periods of transition are short only in comparison with the span of human history but are long as human lives go. They often cover generations. And in view of this it is arguable that it should not after all matter much, in the long run, whether a particular set of technological changes took effect immediately or some

years later. Economists in the early decades of the nineteenth century usually recognized the need for regulating the manner in which an invention was adopted. J. B. Say, for example, recommends that the State should deal with the problem of technological unemployment in the following manner. "Restricting in the beginning the use of a new machine to certain districts where labour is scarce or required in other industries... providing in advance for the employment of the idle by undertaking at its own expense works of public utility such as a canal, a highway, a big building... promoting a transfer of population from one locality to another."¹ This advice was ignored in the nineteenth century because the need for it was not felt by the industrially advanced countries; today its importance is being slowly realised. However, the chief type of control exercised at present over the introduction of new inventions is that by the activities of various types of vested interests. If the State itself controls investments likely to be affected by new inventions it is usually prompt in controlling them. The best instance of this is, of course, the attitude adopted by all governments which own railway systems towards the extension of mechanical road transport. The Indian government, faced with the new means of transport, talks readily of the dangers to public investment; but it does not yet recognise the corresponding responsibility where the traditional mode of living of millions of people is similarly endangered. The extent of the suffering involved in the process of transition is yet very inadequately realised. The artisans and the agriculturists have undoubtedly suffered the most. The history of the fortunes of the handloom industry is a continuous record of partial stabilisations followed by ever fresh periods of disaster. I can vouch from the findings of detailed studies of conditions in centres like Sholapur and Poona for the precariousness of the equilibrium in the industry and the appalling conditions of work and living obtaining within it. And yet governments have attempted little to remedy or to alleviate the situation. Whether it was on account of a general belief in the wrongness of governmental help or latterly because of a belief in the unworthiness of an industry using machine yarn, the handloom weavers as a body have been left much unto themselves. Theirs, however, is merely the outstanding specific example of a large genus.

¹ Quoted in "Technological Trends and National Policy," National Resources Committee, U.S.A. (Report of the Subcommittee on Technology to the National Resources Committee, Washington, 1937), p. 86.

The potential field of the origin of technological advance is vast; it is coextensive with the whole of the area where advanced technological methods of production are followed and their practical and theoretical problems are systematically studied. Any important advance has also repercussions which cannot be confined to its own sphere or to the area of its origin. Through the mechanism of international trade the results of all changes affect the economy of other industries and other regions throughout the world. Regulation of even the most elementary kind is, therefore, possible only if the economy of a country is to some extent insulated. Complete regulation would be effective only if the country was completely self-sufficient and its economy completely planned. The first step in the regulation of change is, therefore, to build up a regime under which the impact of events in other countries can in some measure be warded off. Every country in the world, including England, has during the last ten years accepted the desirability or the necessity of this step. In respect of the control of the pace of adopting new technological devices governments outside the totalitarian countries have yet attempted little. The chief operative influence in this regard in the advanced countries is the opposition of organised labour to certain forms of rationalisation. There is, however, no reason why government should not enter this field of regulations. In a country like India, there is every reason, as I have attempted to show, why it should do so. The regulation to be successful must necessarily be attempted over the whole extent of the country. Its form, however, will vary from instance to instance.

Lastly, I should like to refer to another aspect of national economic policy, that relating to the location of industry. Ours is a vast country and the problem of location is of particular importance in it. In recent years we have had a controversy regarding the location of sugar factories and the permissible extent of the development of the sugar industry in the country. The report of the Tariff Board on the heavy chemicals industry pointed to the great advantages of a concentration of that industry. But its purely negative policy would not allow our government to do anything in this regard. I may also draw attention in this connection to the claim made by the Iron and Steel industry in India in respect of "freight disadvantages." This claim was allowed by the Tariff Board but it raises an important question of principle which needs careful consideration. The claim of the Tata Iron and Steel Co. in effect means that even a single monopolist concern, wherever situated, ought to com-

mandeer the whole of the Indian market. At the same time, under our present policy, such a monopolist concern would be under no obligation not to indulge in rate-cutting to prevent the emergence of a competitor even in a distant part of the market. I have, of course, no intention of implying a judgment on the merits of the claim and mention it here merely to indicate the type of problems that have necessarily to be considered.

I would also draw attention to problems of location of a somewhat different character. One of the main reasons adduced for a conscious direction of economic development has ever been the danger of a lopsided growth in any region. The need for diversity in forms of economic life has been emphasized during the last decade in particular. Even in a comparatively small country like England obdurate problem of the "distressed areas" showed the vital need for a balanced regional economy and the report of the recent Commission on the location of industries has accepted the principle of "regionalism" in these matters. Considerations of this character have even greater force in a vast and a comparatively much less homogeneous country like India. In addition to other things we have suffered during the last 100 years from too great centralization and an almost entire neglect of local needs and circumstances. I am aware that there is a feeling in some quarters that emphasizing the claims of the region or the locality is tantamount to encouraging particularism and is, therefore, anti-national. I am afraid, however, that a lot of this talk is interested and arises from the desire of powerful groups to be allowed to exploit without obstruction or regulation the entire resources of this continent. While vested interests in India are too ready to seek support of arguments that would obtain for them a field free from external competition they often show themselves extremely impatient of the logical extension of these arguments viz. internal regulation. An undue concentration of industries in one region is bound to accentuate the difficulties in other regions and a pure *laissez faire* attitude towards internal financial and industrial exploitation is likely to give rise to forces making for economic and social disintegration over large areas. While it is true that the claims of the regions can be carried to absurd limits we are yet far from any extremes in this country. For, what we have still to fight for is the recognition of the fundamental claim that the concrete facts of the situation shall be allowed to shape an appropriate positive economic policy for the country; and what I would emphasize

is that in the shaping of this policy the legitimate claims of the major geographical and social regions in the country should be given due weight.

I have done. Indian economists must consider themselves very fortunate in the pioneers of their studies. Men like Ranade, Dutt or Wacha who laid the foundations of Indian economic studies laid them very truly; for though rigorous in their analysis they moved close to reality. While fortunate in our leaders other circumstances have no doubt been inimical to a proper and rapid growth of economic research and teaching in India. Those in authority over us have for the most part and for obvious reasons been reluctant to accept our point of view. Their origin and their training necessarily breed in them other preconceptions and prejudices. They still cling largely to *laissez faire* and to pseudo-universalism and they reluctantly and only partially admit the overwhelming importance in the shaping of policy of the knowledge of local circumstance and social background. These are, however, the inevitable results of our present situation and must by academicians be accepted philosophically. We should be wrong, however, if we allowed these circumstances to discourage us. We must persevere in our work and our studies and diligently prepare ourselves for the time when our labours may become more effective and our counsels more heeded.

The Indian economist has often been reprimanded from on high for paying attention to the political aspects of the problems with which he was confronted. The charge, if true, would merely show that some of us have a proper sense of the realities and would, in my opinion, be a matter for congratulation rather than complaint. Holding the views that I do regarding the role of the economist and the scope of economics I need not say that I feel specially pleased that we are today meeting in a joint session with the Indian Political Science Conference and I trust that this session is merely the first of a long and fruitful series.

FOREWORD TO "POPULATION PROBLEM IN INDIA :
A REGIONAL APPROACH" BY N. V. SOVANI.*

For a long time I have felt that the study of the population problem of India considered as a single unit failed to yield significant conclusions and was indeed apt to mislead. Some years ago I made a tentative attempt to analyse part of the available data on the basis of smaller and more integrated regions but could not proceed far with the work. When, therefore, Mr. Sovani expressed a desire to work on some aspect of the Indian population problem I suggested to him the possibility of this regional approach. He readily took up the suggestion and the result was a thesis which in a somewhat abridged and revised form is here presented to the public.

The chief task performed by Mr. Sovani has been to gather together all the important available and relevant data on economic conditions and on the composition and movement of population and to present them separately and in a connected form for a number of homogeneous and/or integrated regions. The chief aim of the study has been a search for any well-defined trends in population movement or any significant correlations between physical environment, economic circumstance and population composition or growth that may exist in a particular region or a group of regions. The major justification for the study is the assumption that India is too vast and too heterogeneous in respect of all factors which should count in a study of the problem of population—geographic, economic, social and cultural and that the Indian population problem is not a single problem but a collection of a number of different types of problems. On this assumption the averages yielded by an all-India study cease to have much meaning; they would contain within themselves such a diversity of phenomena that they would conceal much more than they could reveal. For a study, therefore, both of the particular Indian situation and of the conclusions relating to the general

* Publication No. 8, Gokhale Institute of Politics and Economics, 1942.

theory of population that it yields the splitting up of the problem into a number of properly constituted units is rendered vitally necessary.

The formation of these units, is, however, not a matter entirely of free choice; it is largely predetermined by the manner in which the data have been compiled in the past. The constituent units for the conduct of the Indian Imperial Census are the Indian provinces and the major Indian States. It has always been realised by those in charge of the provincial and State Censuses that most of the provinces and some of the States were mixed in character. Therefore, in compiling and presenting the provincial or State data the Census Commissioners usually prepared tables on the basis of smaller units, called by them "natural" units. These natural units were formed chiefly in view of the geographic factors, so that the climate, the rainfall and the main agricultural conditions in a natural unit were fairly uniform. The natural units being comparatively small and compact areas were usually homogeneous also in respect of other important factors such as language and social structure. The natural units, once determined, were followed from Census to Census and data in respect of these units were presented in the successive Census reports. It is difficult for a student of these data to depart from the limits of natural units as defined in the Census reports. Because any one desiring to define independently the limits of a region would find it impossible to compile the data especially for the earlier Censuses for units other than those for which the data have already been presented. The range in the size of the units studied by Mr. Sovani varies in area from 1,480 sq. miles to 66,624 sq. miles and in population from 1,205,016 to 20,690,518. The large majority of the units, however, fall within the population limits of 3,200,000 and 11,500,000 and the area limits of 8,000 sq. miles and 30,000 sq. miles. It will be thus observed that the units studied are comparatively large and are comparable for the most part with countries like Egypt, Norway, Sweden, Spain, Portugal and Ireland.

Before saying anything regarding the conclusions suggested by the data put together by Mr. Sovani it is necessary to emphasize the series of handicaps under which the student of Indian population problems labours. For all his conclusions he has to rely on a single source of information—The Indian Census. The other and the really important series of statistics available in other countries—the birth, the death, the marriage registrations are either not at all available to him, or are available in such a form that they can be put to no use. These series present

the data in a continuous form from year to year and they are usually the basis of all the trustworthy conclusions regarding trends and tendencies. Their absence in India leaves the student with only a discontinuous set of figures revealing the population position at each ten-year interval. Including the results of both the 1881 and the 1941 Censuses, the maximum of such points of information are seven and the decennial intervals over which change in population numbers can be studied, six. In view of the modern development in population theory it is unnecessary to emphasize how insufficient are such data of gross population movement for drawing any significant conclusions. This insufficiency appears the more glaring when it is observed that for the major part and for most of the regions studied the decennial figures cannot be taken to register the progress of continuous trends. The period before 1920 was subject, in India, to a number of major calamities and catastrophies which left a deep impress on most of the Census figures. The famine of 1874-76, the famines during the closing years of the last century, the plague epidemics which ravaged large portions of the country intermittently for about two decades after 1896 and the influenza epidemic of 1918, none of these can be treated as normal phenomena, unless, with some writers, one counts the periodic incidence of a catastrophe as a part of the Indian normality. Further, the incidence of the mortality due to the famines, the plague or the influenza was not uniform over the whole population; it varied considerably as between the various age groups and the two sexes. Thus, not only have the total numbers been affected by these events but also the composition of the population according to age and sex bears at each Census the peculiar impress left upon it by these happenings of the previous decades. This latter feature of the Census figures makes it specially difficult to interpret them. In the absence of continuous series of vital statistics, it has been usual with demographers to judge of tendencies towards an increase or a decrease of population from the age composition of a population as revealed at the Census. The earlier Sundburg test or the more recent Bergdorfer test all rely on the use of these data. The use of these tests or methods, however, implies that the composition of the population as revealed at the Census is normal, in the sense of its not being affected by any extraordinary event which could not be reckoned as a persisting integral part of the population situation. None of the data available to us from 1881 to 1941 can be regarded as normal in this sense. The results of the applications of these tests to the Indian statistics have, there-

fore, to be treated with considerable reservation. It is only proper to add that one of the regions studied by Mr. Sovani—Travancore—was not affected to any marked degree by the various catastrophes enumerated above. The composition of the population of that region at various Censuses might, therefore, be considered normal.

Some remarks may, at this stage, be made about the relation between opportunities for migration and the rate of growth of the population in a region. It is, of course, obvious that the concept of the comparatively homogeneous region is in itself abstract and its use is permitted because it is a convenient device for bringing out more clearly than would otherwise be possible the operation of the forces affecting the movement of populations. The definition of such a region will, it has been pointed out above, always encounter some difficulties and no region can be said to be unaffected by circumstances and movements in other regions. The chief manner in which a region is affected by others is by migration into it and emigration from it. In this connection the terms "pull" and "push" have been used to differentiate between forces attracting population outside a region and those impelling it to move out of it. It seems to me, however, that the distinction sought to be made and especially the debate as to whether one or the other set of forces more powerfully affect a particular movement are to a large extent unreal. Essentially both a push and a pull are merely the two aspects of the same phenomenon, which is the difference in the relative conditions obtaining in two regions bringing about a movement of population from one to the other in spite of the costs of transfer. No movement can take place unless there exists a better place to go to (pull) and the phrase better conditions outside logically involves comparatively unfavourable conditions (push) at home. It may, perhaps, be better to say that it is always a "pull" that acts; for, there are no conditions so absolutely unfavourable as will "push" people outside a region if they have nowhere else to go to. (It may be noted, that this is written with reference only to movements whose origin is in the main economic and does not apply to such movements as those of the Jews through the greater part of their history. An exception has also to be allowed in the case of movements due to local famines or to permanent changes in the climate of a region such as are supposed to have given rise to movements of population from Central Asia). Also it is well to remember that different population groups will react in a varying manner to the same set of phenomena. The Assam

plantations get their labour chiefly from distant Chota Nagpur; the Bengal peasant is attracted neither by these nor by jute mills but only moves in order to occupy the lands in the Assam Valleys. The coal mines do not prove attractive enough to the Chota Nagpur aboriginals and have to recruit a large proportion of their labourers from the districts of U.P. and Bihar. These same districts send labour in large numbers to Calcutta, Bombay and other parts of India but not to any large extent to the tea plantations. One has again to distinguish between migrations from the different strata of the population. Numerically the most important migrations are always those of the labourers and the peasants but the small trader and artisan migration may also assume quite considerable proportion and may be economically important. To the Gujarat peasant the conditions outside are nowhere attractive enough but the small trader from that region has moved out in large numbers to Africa and to other regions of India itself.

To what extent then does migration result in modifying the character of population growth as essentially a problem of regional balance? So far as India is concerned, it does so only to a limited extent. Moreover, the population balance in a region is affected chiefly by conditions in contiguous regions and migration does not, therefore, result in moving the problem from a regional to an all-India basis. As to external migration the direction in which it can take place and its volume are both limited. Fifty years ago Mr. Justice Ranade could contemplate a continuous flow of labour to distant countries. Today the position has so far changed as to create the problem of the repatriation of old migrants. Whatever the distant future may hold in store, at least immediately there is no prospect of any large outlet being thus available to any region in India. Internally there are only a few regions whose development may be said to have been substantially modified by the possibilities of migration.

The character of a population movement in a region during any period is influenced to a considerable extent by the point of historical development reached by the region at the beginning of the period studied. Thus in a land occupied and exploited since ancient times the forces to which population growth was subject and the resultant movement would be very different from the forces and movement in a new colony with large tracts of virgin soil. No region of India in 1881 could be compared to a new colony. The differences in the character of past development

were, however, very considerable from region to region and it is a further handicap to the student that little can be said with certainty regarding the movement of Indian population for the century or even half a century preceding 1881. The major fact of the history of this century was the series of wars waged by the British for the conquest of India and the subsequent British occupation of the country. The wars and the occupation affected different regions at different times. The wars influenced the population of a region according to whether they were short or long drawn out and according to whether they led or did not lead to a transitional period of a quasi-anarchistic regime. The British occupation of Bengal, Bihar and of the populous Gangetic plain as a whole took place comparatively quietly. On the other hand, the population in parts of the Deccan and Central India suffered terribly in the process. Subsequent to the British occupation of the country the two forces that mainly affected population growth were in the first stage the settlement, especially in its revenue aspect, of the country by the new rulers and secondly, the impact through the imports of British goods and capital of the industrial revolution. As a general rule the early British settlements were devastating in their effects on economic life. This was true in the 18th century of the settlement with landlords in Bengal and Bihar as well as in the 19th century of the settlement with the cultivators in Madras and Bombay. It is, however, difficult to disentangle the effects of the revenue settlement from those of other economic forces. It is, for example, clear that in Peninsular India the first half of the 19th century was a period full of difficulties in which the recovery from disturbed times, the occupation of new lands and the growth of population all took place slowly; yet the many factors responsible for the slowness of the pace are not clearly discernible. During the same period, however, Bengal and Bihar had largely got over the earlier stage of revenue mismanagement and had begun to pursue an even course in economic development. In the same manner the opening up of the country to British trade and capital took place in the different regions at widely differing times, depending on two factors, the date of the British occupation and the development of the means of transport. Thus tracts like the Punjab and Sind were occupied much later than other parts of India by the British and regions of the interior in Peninsular and Central India were not opened to commerce to any considerable extent even when so occupied. Bengal took precedence in all matters because of early occupa-

tion and the facility of river communications. In spite of these differences the statement might be hazarded that a general movement towards rapid economic development became established over the larger part of India only about the middle of the 19th century. The beginning of, what may be termed the modern trends in Indian population, has thus to be placed at least three decades before the date of the earliest reliable Census statistics.

This leads to a consideration of the problem of the nature of a population trend. When, for example, we say that the modern trends began to be operative at about a certain period what degree of homogeneity and continuity of phenomenon is implied in the statement? Broadly there is in the background of all such statements an assumption of a certain balance between population numbers and the economic environment, which means that if completely static economic conditions rule over a long enough period a perfectly stable population appropriate for that environment will ultimately be reached (Cf. Marshall, Principles, 8th Edition, p. 577). With a given disturbance in the economic conditions brought about by, say, a technological revolution, a process of re-adjustment of numbers to the environment begins and this follows a given course which we term a tendency or a trend. The approach of the statistician who tries to measure the degree and nature of this trend by the method of curve-fitting involves the acceptance of these assumptions in their most rigid form. The statistician when predicting the future of population movement on the basis of a curve fitted to the data relating to the past seems to make a yet further assumption. This is that the whole series of movements—past and future—during the given period are all contained in and predetermined by the originating impulse. The assumption of a long growth cycle (and the period of the population theorist is necessarily very long) implies its non-disturbance at any intermediate point. It is only if the originating forces continue to act unhampered that the growth cycle will follow through its predestined course. The assumption, for example, that in the larger part of India the modern trends in population movement began about 1850 means that the ensemble of modern conditions began to have its joint effect on the movement of population at about that time. This set of forces that we term modern is, of course, highly complex. Let us, for helping the understanding of the phenomenon, enumerate a few of them. The most important of these would seem to be the new technique of material production, the increased knowledge regarding the control and prevention of

disease and the breakdown of the old social structure. All these forces together act on a situation, a relation between environment and population which has historically reached a certain point on the basis of other conditions. They transform the situation, disturb the older relation which might or might not have been at an equilibrium point and begin a series of new movements, working, of course, ultimately through an effect on birth and death rates. The point for consideration is whether these forces work from their origin in a uniform and continuous manner in such wise that their future can be predicted from a sample of the results of their working in the past available in the shape of decennial or annual statistics. An examination of the recent past scarcely warrants this hypothesis. If only one of the modern forces, the new technique of material production, is taken into consideration the history of its progress shows that the course of development has followed no predictable uniform course. This course has seemed to profit specially the economy of one region at one time while that of another at another time. In some cases the substitute employment thrown up has been considerable, in others negligible. Even retrospectively it does not appear that at any time in the past the course of the future could have been confidently predicted. The same is true of the effects of the spread or control of epidemic disease. And the mere increased accumulation of past data cannot increase the confidence in predicting the course of the future. Each curve has a meaning. It may represent a continuous growth at varying paces at different periods of time or it may represent varying combinations of periodic growths and recessive movements; in any event it represents a predetermined regular movement of a certain type. For the results of curve fitting to be logically satisfying it must be explained, apart from the vagaries of curve-fitting, as to why the movement should follow the particular pattern. That is, the nature of the relation between environment and population which leads the movement to follow a particular course must be understood. Some discussion of this sort has taken place about the nature of growth curves in general both in relation to the study of population and that of industrial fluctuations. But these considerations are ignored in the majority of attempts at curve-fitting to population data, which seem to take for granted that a passable fit to past data, gives a good enough basis for predictions. Mr. Sovani has exemplified the use of the most common type of curve in use for this purpose by trying to fit it to data of various types of regions. The

curve-fitting was done when the data up to only 1931 were available and they show a varying degree of divergence between the projected figure for 1941 and the actuals recorded in the Census of that year. Reference may also be made here to an article in the *Sankhya* ("An Estimate of the Population of India for the year 1941", T. Krishnamurthy and R. S. Krishnamurthy, *Sankhya*, Vol. III, Part 3, August 1941), where the results of a series of such attempts are recorded. A study of most of these attempts would show that a true prediction could only be in the nature of an accident.

The lack of birth and death statistics makes it impossible to calculate reliable gross or net reproduction rates and the peculiar nature of the sex and age composition data makes the estimates of such rates by certain established methods difficult to rely upon. The approach by the method of curve fitting lends illusory precision to the treatment which is warranted neither by the degree of homogeneity of the data nor by the logic of facts. Mr. Sovani has, therefore, been reduced to the device of merely classifying the various regions by the total extent of the growth that has taken place in them during the entire period and observing whether this leads to any significant grouping of the regions. Such a procedure is, of course, warranted also on grounds other than mere lack of data. It may yield significant results even for regions where ample statistics of all kinds are available. (Cf. "Growth of American Manufacturing Areas" Glen E. McLaughlin, Bureau of Business Research Monograph, University of Pittsburgh, Pennsylvania, 1938). The classification yields mixed groups in some respects but it shows, specially at the two extremes, what would appear to be the main necessary conditions for a rapid growth of population or for a stagnant state. The areas, the population in which grew rapidly during the period 1881-1931, reveal many common features in respect of security of water supply, richness of land and possibilities of expansion of cultivation. On the other hand, the stagnant regions, which might belong to either the secure or insecure types, show mostly a high degree of previous development and a very narrow margin left for future expansion and in some cases, even a retrogression in agricultural conditions due to the heavy pressure of population on land. It would thus appear that even if it was not possible, because of the paucity of data, to talk with any certainty regarding the actual real trends in net movements at the present time, the bare facts recorded at the past censuses

showed a rough and broad relation to exist between environment and population movement.

Mr. Sovani completed his thesis early in 1941 and if I had been writing this 'foreword' at that time I should in all probability have contented myself with the comments made so far. In the meanwhile, however, the summary results of the 1941 Census have become available and they reinforce many latent doubts regarding the possibility of the ordering of the facts of population history in this apparently reasonable manner. The 1941 Census recorded an enormous increase in population in most regions and some of the most remarkable increases have taken place in regions that have been properly regarded so far as most stagnant. This is notably the case with Indo-Gangetic Plain, Central and the Central India Plateau. Nothing in the past history of the numbers in these regions suggested the possibility of this happening. Also the age compositions of these regions at various censuses show no suggestive peculiarities. To explain this increase merely by the absence of a famine or a pestilence is to beg the question. For, famines and pestilences are considered to be the two most important checks on population. And if a region had been overcrowded and, therefore, stagnant for long, any marked upward movement in its numbers ought to be promptly met by either one or both of these checks. This is apart from the fact that the last decade shows a much greater increase in these regions than decades with somewhat similar conditions in the past. As I have said above, the discrepancies revealed by the 1941 Census are only the most glaring. A careful examination the pre-1941 data also raises many problems. Apart, for example, from a few groups at the two extremes the population movements in most other regions are difficult to interpret; difficult to interpret in the sense of not revealing any consistent or clear relation between economic fact and population movement.

It might reasonably be objected at this stage that such a relation if it subsists cannot be a simple one and it may well be that it would be revealed on a very thorough examination of the detailed facts of the economy and history of each region. Mr. Sovani has after all collected together only the available published statistics relating to the more important aspects of the economy of comparatively large regions. A searching examination into more detailed facts in respect of even smaller subdivisions may explain the why and wherefore of the movements that appear contradictory. It is possible to view this question from two diffe-

rent points of view. The first would be the point of view of those interested in the problem of the growth or decline of population *per se*. For such students all factors—biological, social, economic, etc.—that bear on this study are relevant, and it would be their aim to try to define the relations of whatever type that seem to subsist between the phenomenon of population and all these kinds of factors. The economist, however, looks at the problem of population from a much more restricted point of view. The economist is concerned with the manner in which population movements act upon and in their turn are influenced by the constituents of his particular field. His interest in the population problem arise out of such questions as to whether a movement in the standard of living or in the general level of wages leads to any changes in population numbers and *vice versa*. If the economic factor is only one among many factors responsible for population movements and if its extent and mode of operation are not clearly observable, these movements fall largely outside the sphere of the economist. He has then to treat the facts of the growth and decline of human population as externally given without being able to weave them integrally into the pattern of his theories. The connection between economic forces and population movement should be clearest in tracts where the economic environment presses most closely on a people and where human institutions and sentiment least modify the normal biological processes. The majority of the regions studied in this work satisfy both these requirements. In them there are clear indications of a pressure of population on resources. And in India as a whole, the process of social disintegration has largely upset the older checks during the last sixty years while no where have their newer forms, such as contraception, made any significant advance. The study of these regions for this period should, therefore, most clearly indicate any readily traceable relation of the type in which the economist is most interested. A large body of economic theory has based itself in the past on the assumption of a direct palpable relation between the growth of population and economic environment. In recent times doubts have been raised in some quarters regarding the existence of such a relation, and it has been recognized that the aggregate supply of labour might not be determined by any fundamental economic law. A study of the regional data offered by Mr. Sovani reinforces this sceptical attitude. The broad economic data relating to the various regions do little to explain the mutual similarities or differences in respect of the move-

ments of population, sex-ratios or age composition between region and region. The movements for many regions take from decade to decade such turns that no cogent explanations can be offered regarding them. They also raise strong doubts about the predictability of future trends. Mr. Sovani has drawn attention to many detailed peculiarities of the regional data in the course of his study and to certain general conclusions regarding the Indian situation as a whole. To me this mass of material relating to a large number of dissimilar regions appears even more interesting as the possible basis of an examination by the economist of the often implicit assumptions of his theoretical formulations.

19th May 1942.

A NOTE ON AGRICULTURAL RENT *

The theory of agricultural rent is, perhaps, one of the most neglected subjects in recent economic thought. In contrast with the refinements made in many other branches the theory of rent, especially in its agricultural aspect, has progressed little. It is expounded today, for the larger part, as basically formulated by Ricardo and elaborated by Von Thunen. Again while the general theory of distribution is expounded in terms of marginal productivity, rent is still taken to arise as a surplus. Even writers who maintain that rent must be reckoned as an element of the cost of production, at least of the individual producer, explain rent not as the price obtained by a piece of land for its specific contribution to the total product measured by its marginal utility or advantage over the marginal land. The concept of the no-rent land as the basic unit from which all rents are calculated upwards still dominates most explanations of rent. The characteristic features of the doctrine are well exhibited in the following quotation from a recent text-book on the Economics of Agriculture :

“The difference between the total product on the more fertile and on the marginal land, after allowing for the extra labour used on the best land, represents its rent, the charge which the owner of the land can make to any farmer who wishes to hire it. It is obtained because there is a scarcity of the more fertile and consequently more productive land, and because, since cultivating this land more intensively results in diminishing returns, other less fertile land must also be used. Consequently, farmers will bid against each other for the use of the better land where they can obtain a greater total return for their efforts, and its owners will be able to charge a rent for its use”.¹

* Read at the Third Conference of the Indian Society of Agricultural Economics, 1941.

1. A. Cohen, *The Economics of Agriculture*, 1940 Cambridge Economic Handbooks, pp. 27-28

It is curious, however, that the full implications of this doctrine are never examined and its validity ascertained by examination of statistical data. Like all the theoretical formulations of the classical economists the doctrine of rent while apparently simple and convincing is really based on a number of complex assumptions. That these assumptions are never actually realised is being felt more and more as a result of closer analysis of particular problems. These basic assumptions are usually grouped together under the two heads: "Perfect competition" and "Full Employment". I believe it may safely be said that in the matter of agricultural rents in India both of these assumptions take us very far from the realities of the situation. It does not also appear likely that they are consistent with the practical situation in other countries. In this matter the lack of suitable statistical data and of other necessary conditions is a usual handicap. Thus in all tracts where some regulation of rents is attempted by an external authority it may be difficult to ascertain whether any deviation from the expected results is due to the fact of interference or to the defective formulation of the doctrine. In these circumstances it may be possible for the agricultural economist to go on with a consideration of the practical problem without paying much attention to the theorist. Dr. Venn, for example, seems to take up this attitude in the following sentence which occurs in the chapter on Modern Land Tenure in his "Foundations". "There is no occasion to introduce into these pages a full discussion of the economic theory of rent or to refer to such matters as site-values and unearned increment, for the occupation of agricultural land in this country affords no practical data for a review of the principles involved, nor is the nation ever likely to reframe its whole conception of land tenure on theoretical principles".¹ Sound theory is, however, important even from the point of view of practical policies and I propose to examine one aspect of the question in this note.

The theory of rent holds that the return to the tenant for his labour and capital on all lands will be the same. That is, given two lands of differing fertility the cost of production of crops on whom and other circumstances are the same the difference in the fertility between them will be fully exhibited in the difference in the rents. The earnings

1. J. A. Venn, *Foundations of Agricultural Economics*, Cambridge University Press, 1923, p. 34.

of the tenants on all such lands will be the same and the extra income due to the increased fertility of any one piece will accrue entirely to the landlord. If this doctrine is valid the result should be to show within a group of lands which differ in fertility but are in other respects similar a progressive share of the gross produce as rent. This follows from the proposition that in order to arrive at rent, the deduction made from the gross produce is always the same, that is equal to the cost of production on the marginal land. If the deduction remains uniform the residual surplus, which is the rent, ought invariably to increase with the increment in the total produce. And as in many comparatively homogeneous agricultural tracts the differences in the fertility of land for growing similar crops are very much more important than the variations in the costs of production this progressive nature of rents ought to be clearly discernible in statistical data. It is true that it will be almost impossible to obtain statistical data that entirely conform to the theoretical requirements. Yet if the present theoretical doctrine is valid the tendency for a progression of rents should be so marked as to be noticed in all cases where the underlying conditions are in the main satisfied.

Before I go on to comment on the available statistical data it is necessary to draw attention to the significance in this connection of the system of crop share rents. It is surprising that no attention is usually paid to these in the theoretical exposition of the theory of rent. This is perhaps due to the fact that they are not prevalent in Great Britain where the theory originated. But outside Britain they are prevalent to a very considerable extent all over the world. It may be objected that in some forms of crop share renting e.g. metayer in France or share-renting in the Southern States of U.S.A., the landlord directs and controls cultivating operations to such an extent that it is difficult to say whether the sharer is a tenant paying rent or a labourer receiving a wage. This objection does not, however, hold in the case of share-renting in most parts of India. Here the part of the landlord in directing cultivation is negligible and in many types of dry crops he supplies little more than the use of the land. In all cases, however, the form of the share agreement is essentially the same. The landlord supplies the use of land and a part of the seed and manure requirements and the rent he receives is fixed in terms of a share of the gross agricultural produce. This is the universal type of share-renting; and whatever the variations in the details of the contract in respect of the supply of capital or the proportion of the

share it is significant that these variations are never related to the fertility or the locational advantage pertaining to particular pieces of land though these factors may count in effecting variations in the sharing of the crop relating to a whole class of lands in particular localities. It is the presence or absence of irrigation facilities or variations in type of crops grown that usually leads to changes in the terms of share-renting agreements. Again the degree of the prevalence of share-renting in a tract depends on such factors as the extent of absenteeism amongst landlords or the importance of cash crops and is also not related to the differences in fertility, etc., of individual pieces. Thus under share-renting, the produce, grown under similar conditions, of lands of even greatly differing fertility is divided in the same proportions between landlord and tenant. In this system, therefore, the landlord clearly receives for the same kind of crops not a progressive but a strictly proportionate share of the produce of lands of differing fertility. It cannot also be determined on a priori grounds in what direction, if any, the variations in the share proportion take place when the crops are different and when the cultivation is more intense. An examination of this question depends on the availability of suitable statistical data. It is evident, however, that the general form of the crop share system is in itself sufficient to raise grave doubts about the current theoretical concept of agricultural rent. The prevalence of crop-sharing would indicate that the tenant is able to obtain a larger return for his labour and capital on the superior than on the inferior lands.

The statistical data available in India regarding agricultural rents is very considerable but most of it is unsuited to the purpose I have in view. In the first instance, figures regarding all rents which are in any manner fixed or controlled by legislative or administrative action cannot be utilised. This consideration applies to all lands where the tenant is protected in any manner against the unrestricted increment of rent by the landlord. Most data relating to the zamindari provinces is of this character. The Province of Bombay has had hitherto little of such legislation and information regarding the level and movement of rents here would be free from this general objection. In this province also details of rental agreements regarding each survey number which is let are maintained officially in the village records. These figures are utilised at the time of the revision of the assessment of land revenue and each revision settlement contains a considerable mass of rental data. They

are, however, presented in such a form that it is difficult to draw any valid conclusion from them. In the Settlement Reports in the appendix relating to rents all the cases relating to a village are grouped together, the only differentiation made being that between dry and irrigated land. The data are not, therefore, useful for an investigation into the variations in rents of individual plots. Further where data relating to different periods are taken they cannot be compared because the composition of the sample for each village is likely to be widely different at the different dates. The settlement officer again sifts and selects the data in each case. It cannot, therefore, be considered that the sample is necessarily unbiassed in any particular direction. This is a matter in which the average conceals more than it reveals. A look at even the average figures for individual villages show a large degree of dispersion; the variation in individual field rents are presumably very much greater. While the published data in the settlement reports cannot thus be used, the Bombay village records afford a promising field to the careful student. The village records, however, could enable the student only to study the relation of rents to such factors as the area of the crops or the assessment. They do not contain data throwing any light on the relation of rents to the gross or the net produce. For this purpose we must turn to detailed studies of farm business.

The reports on the cost of production of crops published by the I.C.A.R. contain some information relating to rents. In certain tables in these reports are shown the percentage that rents and rental values bear to the cost of production of individual crops. The figures in these tables are average figures and do not disclose the conditions regarding individual plots. Again as the whole farm is, in these tables, considered together the calculations for the rented and the owned areas are not shown separately. Actual rents are set down for the rented area while for owned area estimates are made of the rental value. The validity for an examination of rents of the latter type of data is highly doubtful. The rental value is at best an informed guess and it could not be made the basis of a disquisition on rents. This latter objection holds also against the data regarding individual farms given in the village crop ledgers in the I.C.A.R. reports. Indeed, it is a general handicap in the use of much other published information regarding rent in many farm business studies. Rent regulation is absent in the Punjab and there is a considerable body of figures relating to this question in the farm

accounts studies of the Punjab Board of Economic Inquiry. These, however, cannot be used for our purpose because they relate to individual farms over a widely scattered area. Unless the rental data relate to farms in a comparatively homogeneous tract it would be risky to draw any conclusions from their relative levels. (I may parenthetically note that Prof. Brij Narain has in his *Tendencies in Recent Economic Thought* (pp. 76-83) utilised the data contained in some of the Punjab Farm Accounts for examining some aspects of the current theory of rent. This, to my knowledge, is the only place where Indian statistical data have been used for the purpose. Prof. Brij Narain does not, however, concern himself with the particular aspect dealt with in this note).

In the course of the survey of farm management conducted by the Gokhale Institute in the Wai taluka of Satara district a considerable amount of data relating to rents was collected. In the report on the survey, however, the data for each farm as a whole were treated together and information regarding rented lands was not given separately. I am, however, getting these figures separately tabulated and the following tables contain an advance batch of them. The figures in the accompanying tables relate to farmers from ten villages in the sample. I may note in this connection that all the information collected during our survey related to a sample of whole-time farmers in a comparatively small homogeneous tract. All the villages from which the sample was taken have been placed in one group for revenue assessment purposes and the climatic, farming, transport, etc. conditions are very similar in the tract.¹ It is, therefore, fair to consider the rents of the different fields in the tract as being determined under broadly similar conditions. During the course of the survey the information relating to the crops, out-turn, rental, etc., was noted separately for each separate plot or field of every farmer contained in the sample. It was thus possible to collect from the survey schedules, statistics relating to the quantity and value of the total out-turn, the revenue assessment and the cash rental relating to each plot or field which was rented by any of the farmers in the sample. All these figures were separately tabulated, omitting, however, from consideration all cases where any special privilege was either statutorily or customarily enjoyed by the tenant. In the survey schedules all contiguous area

1. For details see: D. R. Gadgil and V. R. Gadgil, *Farm Business in Wai Taluka*, Gokhale Institute of Politics and Economics, Poona, 1940.

rented by a farmer from the same land-lord was treated as one field. It thus happens that the character of farming in some of the fields is mixed; this, however, could not be helped as the rent was fixed for such areas as a whole and there was no way of splitting it up. The tables are, therefore, compiled separately for three types of fields, (i) dry crops, (ii) irrigated crops and (iii) mixed. From these figures two sets of relations were calculated; one the proportion borne by the rent of each field to its total out-turn and the other the relation of the rent to the assessment. The results of these calculations are exhibited in the following tables separately for each field.

It is not necessary to comment at length on the data exhibited in the tables because the data are not ample and the results which they indicate are, in the main, negative. It will be noticed that the range of the variations in the proportions is very large. The range is seen to be wide even if some of the extreme figures are omitted as being the result of factors like a crop failure in a particular field. Not only, however, is the range within which the proportions vary large but also, and this is the significant point, the variations are not substantially correlated with any variations in the volume per acre of the produce. Large or small proportions of the produce are taken by the landlord in case of both the high and the low production plots. And this does not happen specially in the case of irrigated lands, in which capital costs may be said to dominate, but also in case of dry lands which grow ordinary cereal crops. The statistics thus entirely fail to reveal any tendency to a progressive share accruing to the landlord on the more productive lands. It may be objected, with reason, that our data refer to a single year and are, therefore, not convincing. Even though the climatic and rainfall conditions are similar in this tract as a whole the objection may be conceded to have some force. I have, therefore, also shown in the tables the relation per field of the rent to the revenue assessment. As has been pointed out above the fields all fall in one assessment group the standard for which are the same. The variations in the assessment are in this case due almost entirely to the differing soil classification of the land and variation due to locational advantage as embodied in the original rating. The assessment variations may thus be said to reflect the average conditions in this regard as ascertained on detailed enquiry by a competent authority. This statement is, however, true only in a general manner. In particular cases the original assessment may not

fully indicate present facts as a result of improvements or deteriorations taking place subsequently. Our figures fail to show any significant correlation of the movement of the level of the rentals with high or low assessment. Here again the variations in the dry lands are as wide as those in irrigated lands.

I am aware of the usual objection of the theorist that the statistical data are of a mixed character. As against this the only reply necessary is that these are rents that actually obtain in the absence of any interference and a theory of agricultural rents to be worth discussing must be in a position to interpret such data. On a *priori* grounds again the assumptions of perfect competition and full employment are not even remotely justified in Indian agricultural conditions. (It is difficult to understand in what sense Chamberlain calls agricultural rent a "purely competitive return". Vide Appendix D, "The Theory of Monopolistic Competition"). It is, therefore, necessary for us to attempt to construct a more satisfactory explanation of the manner in which agricultural income is shared by different classes. The necessarily fragmentary statistics and observations offered in this paper are put forward merely to establish the need for such a new approach to the question.

CASH RENTALS OF DRY CROP FIELDS

Serial No.	Area	Value of gross produce per acre	Rent per acre	Revenue assessment per acre	Proportion of rent to value of gross produce	Proportion of revenue assessment to rent
	A.G.	Rs. As. Ps.	Rs. As. Ps.	Rs. As. Ps.		
1.	0- 7	101- 6-9	31- 6-9	5- 8-6	30.7	17.6
2.	1-28	67-12-9	25- 0-0	4-12-6	36.9	19.1
3.	1-15.5	56- 6-9	21- 6-9	5- 2-0	37.5	23.9
4.	1-27	46- 7-0	12- 0-0	2-13-3	25.8	23.5
5.	3-20	42-15-6	12- 9-0	4- 6-9	29.1	35.3
6.	1-36	42-10-0	17- 8-9	5- 2-6	41.0	29.4
7.	1-24	37- 3-0	10-10-0	4- 1-9	29.0	38.7
8.	0- 7	37- 2-3	28- 9-0	8- 3-3	77.0	28.7
9.	3-22	36- 4-3	11- 4-3	3- 6-0	31.0	30.0
10.	14-30	35-12-0	13- 9-0	4-10-0	37.7	34.2
11.	0-18	33- 5-3	15- 8-9	3- 7-6	46.0	22.5
12.	3- 0	29-13-6	10- 0-0	1- 5-0	33.4	13.2
13.	1-13	29- 1-0	18-14-0	4-15-3	65.5	26.2
14.	0- 9	27- 3-6	53- 5-3	4- 7-0	195.7	8.3
15.	4-23	26- 4-6	9- 0-0	4- 5-9	34.3	48.6

Serial No.	Area	Value of gross produce per acre	Rent per acre	Revenue assessment per acre	Proportion of rent to value of gross produce	Proportion of revenue assessment to rent
	A.G.	Rs.As.Ps.	Rs.As.Ps.	Rs.As.Ps.		
16.	5-38	25- 1-3	6-11-6	4- 2-9	26.9	61.9
17.	8- 1	23- 3-6	9-15-6	4- 2-3	43.0	41.4
18.	1-24	22- 6-3	9-12-3	2- 0-6	43.6	21.0
19.	6-30	20- 6-3	9-10-0	3- 2-0	47.2	32.4
20.	2-27	20- 5-3	14-15-3	3- 4-3	73.7	21.8
21.	1-23	20- 3-9	9- 8-3	1-15-0	47.0	20.4
22.	3-35	19-14-6	12-14-6	3- 5-6	64.8	26.1
23.	1-25	19- 1-0	11- 1-3	3- 3-9	57.9	28.1
24.	3- 2	19- 0-0	5- 4-0	4- 4-9	27.6	81.4
25.	1- 5	17- 1-9	13- 5-3	4-13-3	78.0	33.1
26.	4- 4	16- 4-6	13- 6-6	5- 0-0	82.3	37.2
27.	11- 5	16- 2-0	1-14-3	2- 7-0	24.0	62.8
28.	6-16	15-12-6	3- 2-0	3- 3-6	39.7	104.1
29.	2-20	15- 4-9	12- 0-0	4-11-6	78.7	39.6
30.	3-39	15- 4-3	12- 8-0	3-12-0	82.0	30.0
31.	6-18	13- 2-6	5- 1-9	4- 7-0	38.5	86.6
32.	8-15	11- 5-3	8- 6-0	3- 9-9	73.9	43.0
33.	1- 8.5	11- 4-0	4- 2-9	3- 0-3	36.5	71.7
34.	3- 6	8- 5-3	2- 3-6	0- 6-0	36.0	16.5
35.	15- 0	4- 7-6	2-14-0	1-10-0	64.4	56.5
36.	3-28	4- 6-3	3- 4-0	1 -0-6	74.3	31.7
37.	3-15	4- 5-3	4-12-0	3- 3-0	109.6	66.9

CASH RENTALS OF IRRIGATED CROP FIELDS

1.	1-20	307- 0-0	74- 0-0	11- 7-3	24.1	15.5
2.	0-11	291- 0-0	81-13-0	10- 7-3	28.2	12.8
3.	0-28	273- 9-0	21- 1-0	9- 3-0	7.7	43.8
4.	0- 8	237-12-0	40- 0-0	11- 9-0	16.8	23.9
5.	0-17	93- 8-6	82- 5-9	14- 6-6	88.1	17.5
6.	1- 2	75- 8-0	28- 9-0	10- 1-0	37.7	35.1
7.	2-23	74- 6-0	38-13-3	11-11-9	52.1	30.3
8.	0-14	65- 0-0	34- 4-6	11- 4-0	52.7	32.8
9.	1- 0	57- 7-3	32- 9-0	4- 9-0	54.4	14.0
10.	0-28	37- 2-3	22-13-9	7- 2-3	61.6	31.1

CASH RENTALS OF MIXED CROP FIELDS

1.	1- 0	97- 9-3	75- 3-0	13- 6-0	77.0	17.8
2.	1-20	56- 9-3	40- 0-0	7- 4-0	70.8	18.1
3.	1-28.5	43- 3-9	29- 6-6	5-14-0	67.9	20.0
4.	3- 1	34-15-9	9-14-9	4-15-0	28.6	49.6
5.	2-20	34- 1-6	16- 0-0	3- 9-3	47.0	22.3
6.	7-27	24- 2-9	13-11-0	8- 8-6	56.6	62.6
7.	3- 2	16-10-3	1-13-3	4- 4-3	58.7	43.3
8.	6-20	9- 0-0	3-13-6	0-13-0	43.0	21.1

FOREWORD TO "THE ABORIGINE—'SO CALLED'—AND
THEIR FUTURE" BY G. S. GHURYE.*

This publication of the Institute stands on a somewhat different footing from its predecessors. All the publications issued by the Institute so far, have been written by workers or students connected with the Institute and have embodied results of investigation or research carried out under the guidance of its Director. Dr. Ghurye's work does not fall within this category. It is an independent piece of work which he was kind enough to offer for inclusion in the series of publications of the Institute. The Institute readily agreed to his suggestion because of the importance of what Dr. Ghurye had to say on this vexed question, and also because it raised issues and dealt with problems which, in other contexts, were being studied at the Institute.

Dr. Ghurye writes essentially as a sociologist. The problem he tackles has, however, very important politico-economic aspects. This is hardly surprising as it is fundamentally the result of contact between peoples with widely different economic techniques. The particular problem of the aborigines in India lies at one extreme of the body of problems created by the British occupation and exploitation of India. The history of the occupation by the British of region after region of India runs to a somewhat monotonous pattern. In this history, alliance, protectorate, pacificatory expeditions and occupations follow each other in due course. The initial contact was usually established at the political end, whether for economic or for political aims; the later economic penetration was universal whatever the nature of the political authority obtained over the particular region. The immediate and palpable results of economic exploitation, however, differed from tract to tract and from one economic activity to another according to the worth of exploitable resources contained within the region, or the directness of the impact on the activity. Thus in the history of indigo cultivation in Bengal in the

* Publication No. 11, Gokhale Institute of Politics and Economics, 1943.

first half of the 19th century or that of tea plantations later, or in the collapse of certain handicrafts, the relation between the economic results and the seizure of political power by the British was obvious to all. In other instances where the developments were not equally arresting, the connection between the two was not as apparent. This was particularly so in the case of what might be called the "central aboriginal belt". The geographical limits of this belt have been largely determined by the desirability and possibility of exploitation and settlement. The extent of the area in which aboriginal tribes are found comparatively unaffected by outside contact has depended not only on the comparative inaccessibility of the regions inhabited by them, but also on the comparative valuelessness from the point of view of exploitation by the British, of the resources contained within those regions. The opening up of Assam might, in this connection, be contrasted with that of Chota Nagpur. The fact that economic pressure was neither considerable nor direct in some regions, however, makes little difference to the nature of the primary phenomenon. Even in these regions, outside contacts were brought about as a result mainly of the attempts at the establishment of the police and the judiciary, the guaranteeing of the excise revenue, the guarding of forests, the settlement of land, the opening of the country to trade, etc. And all these were parts of the process of the occupation and exploitation of the country by the British. It is necessary in this manner to insist on political contact and economic exploitation not only because they were chronologically prior, but also because they led to a very general modification of social life and social outlook.¹ It is not necessary to labour the point that a change in economic habits and way of life necessarily leads to a general change in all other directions. The

1. Cf. the following :

"The first lease of the Cheyla Poonjee orange groves was granted, on the 15th February 1830, to Mr. Inglis for fifteen years, by the Wahadadars, who no doubt, at that time were specially empowered by the people to grant that lease in return for a loan of 3,000 Rupees, which had been advanced by Mr. Inglis to the whole Cheyla community to enable them to pay a fine of 4,000 Rupees, which had been imposed upon their district by the Governor General's Agent"—W. J. Allen : "Report on the Administration of the Cossyah and Jyntia Hill Territory," Para 333, (1853).

The whole course of events had also, it should be noticed, the result of substantially increasing the power of the Wahadadars and undermining an originally democratic tribal organisation.

intimate connection of social practices and religious rituals with economic life is well known, and if the balance of the one is disturbed the other cannot remain unimpaired.²

In the writings of many Englishmen the problems of contact of the aborigines with the outside world are treated as if they were essentially the result of the impinging of Hindu society on the preserves of the aborigines. This is an entirely wrong view of the problem. The establishment of British rule has brought about a revolution in the nature and extent of the contact of the Hindu with the aborigine. The primary phenomenon in recent history is the extension of British domination. The Indian features are mere corollaries thereof serving, at a secondary level, the main purpose of the primary phenomenon. This will be the clearer if one studies developments in areas outside India opened up and primarily exploited by Europeans as, for example, in East Africa or in South-East Asia. The Indian trader or money-lender in these tracts appears as a secondary growth in the same manner as in the Indian aboriginal areas. Whether in the one case or the other, it is the exploitation of the country by the new methods that gives the peculiar turn to the results of the contact between inhabitants of the region and the outside world; and the problem of the Indian aborigines is thus seen to be only one of many such, created by the expansion of the White races and the spread of the Industrial Revolution all over the world.

This will be further emphasized by observing that the new type of money-lender, for example, is, as Dr. Ghurye points out, not the peculiar product of conditions in the aboriginal tract. The spread of the non-indigenous money-lender is, indeed, a peculiar feature of Indian economic history in the 19th century, whose connection with British occupation and the British judicial system cannot be disputed. For example, in the Maratha country, which flanks the central aboriginal belt, the exploitation of different strata of the population by Marwari and Pathan moneylenders has been notorious. With the transition to money economy and the establishment of novel concepts regarding land rights and judicial procedure, the more enterprising moneylenders, who

2. Dr. Hutton has pointed out that the introduction of child marriage in certain tribes might itself be due to the ease with which bridal money can be got together in a money economy as compared with a barter economy. Cf. Dr. J. H. Hutton, "Primitive Tribes", in *"Modern India and the West,"* Ed. L. S. S. O'Malley, (1941).

did not belong to the same society as the debtors and whose operations were, therefore, not restrained by pressure of social opinion, had peculiar opportunities. And, within the country, there were naturally found migrating classes who were keen to sense these opportunities, and sedulous in exploiting them. Whether in the aboriginal or non-aboriginal tracts the resulting phenomenon was in origin and in results of the same type, and had little to do with identity or difference in religion and culture.

It is interesting to observe how the ideas of Europeans on the subject of contacts between peoples have gradually undergone a change in recent times. The two extremes are represented by the idea of a complete "open door" i.e. on restriction or regulation of contact, on the one hand, to the idea of the "National Park" i.e., complete isolation, on the other. The National Park idea is by no means new. The Japanese, for example, after some experience of contact with the Whites decided to convert their islands into an isolated National preserve and they persisted in their resolve over a long period until the Americans, by force of superior arms, compelled them to change it. Accepting an open door and freedom of intercourse, the Japanese went on faithfully to copy the objectives and methods of their teachers with the result that they find themselves in disgrace with them today for following exactly the opposite line of conduct. These changes of views and of emphasis in the political sphere can be matched by development of thought in other spheres also. In the economic sphere, for example, there had always been sharp differences of opinion as between the English and the Americans regarding the type of open door or the extent of isolation, and developments in recent decades have brought about a further measure of change in both of them. It is necessary to point to the obvious in this manner, in order to emphasize the environmental factors which are open to give bias to all thought on matters of social policy. The peculiar recent concern of English writers with the problem of the Indian aborigines is the result of what was feared to be the impending transfer of political control from British to Indian hands. The English members of Parliament who spoke in the Parliamentary debates on the India Bill on this question and Mr. Elwin both belong, it is necessary to remember, to the same phase of English opinion on the subject. It is likely, on the other hand, that Dr. Ghurye is also partly actuated to write because of his concern at the possibility of creation, in our midst, of regions of

unabsorbable men and resources who might even be given a hostile bias. The only way, therefore, in which matters could be judged somewhat apart from particular bias, is to consider them as parts of a possible universal policy.

In this connection one often hears of a facile talk regarding science and the scientific method. However, this is one of the instances, where such talk is most obviously misplaced. There are at least two major objections against the use of the term "scientific" in this context. The first relates to the objectivity of the data. As Dr. Ghurye shows, this is specially to be doubted. The impressions of different sets of observers, equally competent, may differ as to the phenomenon observed in a striking manner, depending possibly on personal opinion. To one, a people may appear depressed and without zest of life, to another merely sober and more regular in habits. It seems that even in matters such as the quality of the products of crafts, observers might sharply disagree. It thus becomes difficult to dogmatize, especially about the total effect of a many-sided event like the contact of two peoples. But an even more fundamental objection to talking of a policy based on science is that, while the scientific method may enable you to define the casual relation between events, and perhaps even to predict, though the latter very rarely with any certitude in the social sphere, yet the scientific method by itself yields no social values. That a sexual life like that of the Baigas, as Mr. Elwin describes it, is to be preferred to the state in Hindu society where child marriage is common, is an opinion that might be termed highly just, highly sophisticated or highly perverse, according to the peculiar predilections and prejudices of persons but neither of these judgments could be called more scientific than the others. Among the social sciences, economics is supposed to have advanced more in scientific rigour than the others. But even economists are today insistent on saying that, say, the greatest happiness of the greatest number, as an end of economic activity, must be taken as externally given and is not yielded by economic analysis by itself. The anthropologist or the sociologist may argue out of the richness of his experience why certain ends are to be preferred to others. He has no authority, however, to clothe the results of his personal judgment under the commanding garb of the term "scientific".

Dr. Ghurye has shown that English policy has neither been consistent nor successful in its treatment of the problem during the last century and a half. Whatever the variations in this policy, it did not base

itself at any time on complete isolationism. An imperial power could not obviously adopt an isolationist position; for, if the aborigine was to be placed in a "reserve", there was no reason why the Hindu also should not be left alone. English non-official thought also did not advocate a policy of complete isolation. Isolationism, where noticed in this period, was of a modified sort, that which stressed the avoidance of contact with the Indian or the Hindu but not with the European or Christian. The extreme position in this regard is a definitely recent development.

It is worth while investigating the implications of this isolationism. It seems opposed to all flux or change in respect, at least, of certain communities. It obviously lays special store by the qualities engendered in them by all freedom from contact. It values these above all possible gains of contact, and in doing this it would prevent any further economic and political development of these communities. The large majority of the peoples it would so isolate are living at standards distinctly lower than those of the surrounding population, and in some cases make an extremely precarious living. Politically the idea of the "park", in itself, involves a permanent state of tutelage and guardianship, exercised by whatever paramount political power that happens to hold sway over the area. It definitely denies the right to the protected people themselves to choose, because it questions their ability to make the choice. It gives no heed to the claims of the larger region or society and would make for fossilisation instead of for mutual adjustment through time. It seems to originate in a notion similar to that of White trusteeship; for, it would impose a set of values and a course of behaviour entirely independent of the choice of either one or of both of the two parties to the contact, and would substitute for it the judgment of a third which is not even representative of any larger social order embracing the two parties. It is a much more extreme policy than that adopted on certain reserves, as that of the Maories or of American Indians. For, in the latter, economic and educational progress is not only not hindered but is welcomed, and only such parts of the older cultural pattern preserved as are consistent with such progress. The isolationist in India realises that he must take an extreme stand because if contact in any one direction is allowed the resulting effects will be such that the process of assimilation in the not very divergent neighbouring strata will easily be set in motion.

As against the isolationist position, Dr. Ghurye would evidently urge that the antagonism between the aborigines and the Hindu society,

which the isolationist emphasizes, does not in reality exist. The Hindu society immediately surrounding the aborigines is indeed, he would point out, very akin to it in racial composition and spiritual faith. It is made up very largely of the erstwhile aborigines themselves, now incorporated in the Hindu fold and the process of incorporation is far from being an unmixed evil. Such a process, especially with proper regulation and safeguards, is the only one which holds out any promise for the improvement of the political, economic and social conditions of these backward peoples. The Hindu society is itself in a considerable state of flux and its internal stresses are such as to lead to an improvement generally of the strata now reckoned as the lower among it.

Dr. Ghurye rightly points out that the problem of the "so-called" aborigines is not essentially different from that of other classes in Hindu society who are socially and economically depressed. Governments in India have already accepted, in principle, the responsibility of specially protecting the interests of the backward and the depressed, as is clear from the prevalence of Money-lenders' Acts and legislation restricting alienation of land. Indian public opinion is in this regard much in advance of the pace of governmental action. This fact, taken together with the internal reforming movements, should prove a sufficient guarantee that the interests of the tribal peoples will not be injured by reason of unregulated and indiscriminate contact. There is, however, one lesson which the emergence of the isolationist position should serve to impress upon leaders of Hindu society. It is that it is both inexpedient and unjust to attempt to impose their own scheme of concepts and values on all classes. In this regard, the reformers are notoriously the worst sinners. Already activities in putting their own ideas regarding the drink habit or the marriage tie into legislation seem to be causing unnecessary hardship. The traditional Hindu way, which has ever been tolerant of the settled way of life of those newly entering society, should serve as an object lesson. Provided this lesson is properly learnt no apprehensions need arise on the score of the future of the "so-called" aborigines.

Such are some of the reflections evoked by a perusal of Dr. Ghurye's study in a student of a kindred social science. The reader should be warned, however, that they do not pretend to give a necessarily accurate interpretation of what Dr. Ghurye has to say on the subject; for that, he must go on to the characteristically careful, cautious, and thorough account presented in the pages that follow.

RAIL ROAD CO-ORDINATION WITH SPECIAL REFERENCE TO RATES POLICY.*

The co-ordination of Road and Rail transport constitutes, in the post-war period, the most important transport question of countrywide interest in India. In transport co-ordination the crucial problem is that of the division of traffic between the different agencies. Such division might be brought about by voluntary agreement or externally imposed regulation allotting different categories of traffic to different transport agencies; or alternatively by a regulation of the rates structure which evens out the conditions of competition between the various agencies and then leaves the traffic to flow into such channels as it likes. A major difficulty in the way of an *a priori* distribution of traffic categories is the lack of adequate experience and data. There is also the danger that this method would result in rigidifying distribution of transport over long periods and make it impossible for the transport system and the country at large to get the full benefit of continuous technical advance. Controversies regarding the limits of zoning and the appropriate distances by which passenger or goods traffic could be economically hauled by road illustrate the nature of the problem of distribution. The resolution of such problems will depend on a variety of factors differing widely from tract to tract such as the development of the road system, the nature of traffic originating in the tract, the alignment of railway tract, etc. A proper appraisal requires full attention being paid to each local circumstance. For example, the railway tract from Poona to Karad was at the time of its construction so unsuitably placed in relation to all the important centres of population that even though it appears that in this region road haulage runs parallel to the railway the economy and convenience of the two differ very greatly. Even with ample data covering the working of the competitive system over a long period complete agreement would be difficult to obtain. Any general answers with the present data are out of

* Indian Journal of Economics, January 1946.

question in this country. The present data are in most respects extremely inadequate. The competition between rail and road especially in regard to goods traffic had, by 1940, not continued over a long period; and the available information relating to actual diversion of traffic during that period is very meagre. Road hauliers were for the most part unorganized and unregulated and did not make any regular statistical returns or even compile for their own purposes, as in some other countries, any authentic information. The statistics of rail-borne trade were compiled in such a manner as to make it very difficult to assess therefrom the extent of the effect on rail-transport of the competition of roads. The *ad hoc* enquiries conducted by railway authorities in particular cases of apparent diversion were always departmental affairs with very limited objectives. Their results even if generally available would, therefore, be of doubtful validity for general application. The poor state of railway finances during the early 'thirties was the result mainly of the impact of the agricultural depression and the cry regarding the effects of road competition was then definitely premature. In India it is thus impossible to establish an *a priori* division of categories of traffic between various transport agencies. This is entirely apart from the consideration that it would be illegitimate to project into a changing future results obtained from the past.

If this is accepted, the problem of the relation of railway rates to road rates becomes of the greatest importance for the future. The structure of railway rates and the main lines of its evolution are familiar to all. Railway rates in most countries have been built up on the principle of "what the traffic will bear". It is usually contended that on account of the large proportion of overhead costs in railway operation, making up a rate on "the cost of service" principle is well-nigh impossible. The application in railway rates of the principle of what the traffic will bear leads to great importance being attached to value in relation to bulk of the commodities transported and to charging a differential rate for the same service to different classes of commodities. It is clear that the whole of this structure of railway rates is sustained because of the fact of monopoly. Railways till the advent of mechanical road transport enjoyed a practical monopoly of all inland bulk trade in most countries over any distance. The monopoly was modified only by the presence in particular instances of water transport. This monopoly has been, however, broken by road carriers since 1920 and the railway rates structure has been modi-

fied in consequences. For the most part the result has been not so much a fundamental change in the structure of rates as an increase in the importance of special or exceptional rates in the structure. The emergence of exceptional rates, which are in the nature of special category rates (the category being defined in terms of volume or of nature of commodity or of movement between specific points, etc.) has followed from the monopolistic position of railways and the principle of what the traffic will bear. Before the advent of competitive road transport the exceptional rates were chiefly used as an instrument of stimulating particular categories of traffic. They have since become in the main a competitive weapon. The principle of what the traffic will bear necessarily involves attention being paid in rate-making to each particular regarding the traffic carried. Logically, it should lead, among other things, to discrimination between individual consignors also. Governmental regulation has, however, everywhere allowed discrimination between places, commodities, etc. but has prevented by regulation discrimination in the same type of traffic as between individuals. The power to quote special rates when the conditions with which the special rate is hedged about can be very detailed, and might in many cases amount to a rate for a consignor even though the special rate is legally generalised in the rate books of the company. After the beginning of competition special rates have ceased to have their old significance and are no longer to the same extent rates which are made possible by special facilities or economies of transport but are in the main rates which are the reflex of road transport conditions. Even before the advent of road competition the rail-rates structure was always highly complicated and was as in the main an entirely empirical business. Today the element of chaos in it has further increased.

When one turns to the road-rates structure one finds that it is yet for all practical purposes non-existent. However certain important features of the circumstances under which road rates are charged deserve attention. The road haulier has never from the beginning been a monopolist. He has always had to carry traffic in competition with other means of transport. Therefore his rates could not be based on the principle of what the traffic will bear but had to look more specially to his own costs of service. There has been in consequence little discrimination in relation to the value of goods carried in road transport rates. The classes of goods attracted to road transport have been chiefly from

among those which had been classified specially high in the railway-rates structure. As the railways made the more costly goods bear a specially high rate and as the road hauliers were not in a position to discriminate between goods according to their values these goods were first attracted to road transport. From the point of view of railway transport this has been called *skimming the cream of the traffic*. Secondly, the unit of operation in road traffic has always been small, especially in India. This has meant that most road rates are rates quoted for particular consignors for particular trips rather than rates worked up into a generalised schedule. The influence of the return empty trip has been specially large in road rates and this has further prevented the emergence of systematic and uniform rates. Thirdly, the possibility of the larger consignors carrying their own traffic has been always pressing in road transport. This has been another influence preventing discrimination and keeping road rates within the ordinary competitive sphere.

The main question to be tackled as regards the future is the effect of road competition on the structure and level of railways rates. Any continuous extension of the special rate system must ultimately undermine the differential structure of rail-rates; because the sphere of special rates will spread with every further extension of road transport and with each further class of commodity carried by road transport. Quoting a special rate has ordinarily the effect of negating or reducing substantially the discriminating character of the rail-rates structures. The large difference between the rates for a variety of classes of goods cannot thus be maintained for long and railway rates from being monopolistically conceived must be conceived as being framed in a competitive regime. This possibility is usually sought to be avoided on the following grounds:—It is pointed out that the absence of discrimination means not a leveling up but leveling down of the rates structure and this leads to an undermining of the financial position of railways. The only way in which in competition with road transport the railways could recoup themselves would be by increasing somewhat the charges on classes of commodities which are carried at specially low rates by railways today. It is, however, said that these charges cannot be raised because these classes of goods are today bearing all that they can. Further, from the point of view of national economy, any increase in these rates must lead to a disturbance in the balance of industrial or agricultural economy. A substantial increase in the price of coal, for example, following upon the increase of

transport charges must bear harshly on industries in many parts of India. The case for the maintenance of the *status quo* is thus strongly supported with reasons of solvency of the rates system of railways and the continued cheap transport of basic commodities like coal. The continuance of the existing state of affairs, however, depends entirely on the ability to neutralise the effect of road transportation on railway rates. This can be done by (i) preventing the growth of road transport or (ii) preventing road hauliers from competing with railway transport, or (iii) bringing road hauliers and railway transport in a single system of monopoly by which instead of the railway rates structure being affected by road transport, that structure is itself carried on and applied to the operation by roads.' Of these alternatives the first is obviously out of account. In the 'thirties Indian railway authorities were chiefly inclined to explore the second method. The interest of provincial governments in road development and the operation of road transport and the general public feeling on the question, however, showed that this approach could not be successfully pursued. It, therefore, appears that it is the third method which is now being contemplated by the Government of India and the railway authorities.

The arguments in favour of the *status quo* need to be examined in some detail before the new policy can obtain support. The financial argument which is the most important rests on what happened to railway finances during the 'thirties and on the experience of some other countries. The distressed condition of Indian railway finance in the early 'thirties was almost entirely due to the impact of the depression. Competition of road transport in goods traffic was then insignificant and in passenger transport also the total effect was small. What the effects of renewed competition in the immediate future will be is difficult to lay down definitely. That the sphere of road transport operation will be greatly widened is undoubted. It is not equally clear that the effect on railway will be adverse. The rail-road relation is not completely or even, in the main, competitive. It is in a large measure also complementary. This is specially true in a country like India where rail transport has not been intensively developed in most parts. It has been recognised that a considerable proportion of the growth of road transport helps instead of harming railways. Even on competitive routes road transport touches only particular section of the traffic and even of particular categories it is rarely the whole or bulk of the traffic that is withdrawn. On the other

hand road transport creates new traffic for the railways. In India neither railway development nor traffic development have reached a saturation point. Indeed, any considerable growth of economic activity such as is envisaged in future economic planning must increase greatly the volume of business available to railways. These considerations indicate that it is at least not proved that railway finances will necessarily suffer by the development of road competition on fair terms.

The second main argument in favour of the status quo is the effect of the competition on the structure of railway rates. Must it lead to a substantial increase in the rates charged for traffic in the lower classes? The volume of traffic carried in these classes is large but the income derived by the railways from them is proportionately much smaller. It would, therefore, be not possible for railways to better their financial position to a significant degree by increasing the charges on this traffic. For financial solvency, railways must retain the bulk of their present volume of traffic in the higher rated classes also. Nothing in the position of railways in other countries indicates that it will be impossible, with proper organization, to do so. In countries where competitive railway construction has proceeded far the elimination of some duplication and the closure of some branch lines are the only steps that have been felt to be necessary. The differentiation between different categories or rates will be no doubt somewhat lessened by road competition and the power to discriminate indiscriminately will no longer rest with the railways. But this instead of being a drawback must be considered as the greatest advantage, from the national point of view, of road competition. In essence then the case for the eliminations of the competitive factor from road transport depends on its possible financial effects on railways. If the competition of roads is placed on a fair level there is nothing to suggest that the railways, though under compulsion of organising their business better and rationalising their rates, will necessarily suffer. On the other hand, the perpetuation of the status quo is highly undesirable from other points of view.

The method of co-ordinating road and rail transport by means of a monopoly effectively makes it impossible for all times to reap the practical benefits of the competition of road transport. The existence of a monopoly generally leads to a discriminatory and at times to an irrational structure of rates. The plea that a particular bit of traffic was easy to carry could be made to cover all kinds of discrimination and except

through the cumbrous machinery of a rates tribunal nothing could be done to check the vagaries of the system. Where in U.K. or U.S.A., the railway systems themselves were partially competitive with each other the worst features of the monopolistic system did not appear. In India, on the other hand, the monopoly of the individual railways was unchallenged and the railway rates structure has been more chaotic and arbitrary than elsewhere. For example, in passenger transport the comforts of the first and second class traveller have always been largely subsidised from the earnings on third class traffic. It is a fact that attention to the convenience of the third class traveller began to be paid only after the emergence of road competition. Even today the balance is still heavily against the third class traveller and it is symptomatic of what will happen in a monopoly that special upper class rates which do not fully pay for their extra comfort are being introduced on motor transport in the co-ordinated services. In the face of road competition the railways have not made any attempts to introduce order in their rates structure but are merely exploring means by which an adjustment could be postponed indefinitely. In case a road-rail monopoly is achieved no inducement will be left to the railway authorities to try and rationalise their rates structure. The road operators will no longer be interested in quoting competitive rates and their will merely be an agreed division of the traffic between the two agencies. The only continuous adjustment to change that can come about in the circumstances would be owing to any action taken by the monopolistic organizations or by government on their own account. In the light of past experience it is too much to expect a great deal in these circumstances.

An important consideration might be put forward to reinforce the contention that the attempt to neutralise the impact of road competition on railway rates is contrary to long run interests of the country. It is an old complaint against Indian railways that their rates policy encouraged concentration of trade and industry at ports and at a few important inland centres and generally discouraged the dispersal of industrial or trading activity through the country. The system of special rates in existence today in relation, for example, to the centres of textile industry exemplifies the force of this contention. Railway rates thus are an important influence in the shaping of the distribution of industrial population within the country. In recent years it has been increasingly recognized that concentration of economic activity in specific localities and regions has

gone too far in India and that a wider dispersal of the activity must necessarily be brought about. To achieve this aim a suitable adaptation of the rates policy will also be necessary. The highly advantageous special rates for certain localities must necessarily be abandoned in favour of a more equitable system as between place and place. The competition of road transport was naturally and increasingly bringing such a system about and it is agreed that the development of motor transport is generally favourable to a wide dispersal of economic activity. The formation of a joint road-rail monopoly will naturally put a stop to further progress in this direction. Railways being the more highly developed interest in this combine the maintenance of the structure of their rates and their point of view will naturally dominate the policy of the monopoly. Road transport will be developed mainly as ancillary to railway transport. No doubt, general protestation will be made about looking to the interest of the country as a whole but the actual effect will always be that of continuing the traditional railway policy and denying the country the potential benefits of full developments of road transport.

A further subsidiary argument may be advanced as against the policy of a road-rail monopoly. There is little doubt that the development of road transport has led to a growth of small business to a considerable extent in India. Small businesses in cut-throat competition with each other are undoubtedly wasteful. Small businesses in a regulatory regime are, on the other hand, a development much to be welcomed. This is so especially in a country where there is a rapid tendency for economic power to be concentrated in an extremely small number of persons or corporations. The creation of a road-rail monopoly at this stage in India will drive out road transport and by an inevitable tendency from amongst all allied activity small business men and create, on the one hand, a few privileged positions of extreme profit and, on the other, a mass of wage earners.

In the absence of a monopoly the conditions brought about by a development of road transport and the steps necessary to regulate this development may be summarised as follows: The goods rates structure of road transport has yet to be built into an integrated system. It is, however, obvious that such a structure must in certain essentials differ from the structure of railway rates. The smaller unit of operation and the smaller sphere and volume of operation will make it difficult for a full working out of the principle of what the traffic will bear in road trans-

port rates. The fact that the permanent way is provided for by another agency and that its cost to the operator becomes closely related to use, also make it unnecessary for the road operator to resort to the principle of what the traffic will bear. The road rates structure is also less affected by permanent overhead costs as terminal points. Therefore, it will tend to be differentiated from the railway rates structure in, at least, two important respects. (1) The economies of longer haul will not be specially marked in it and the rates structure need not be as telescopic as on railways and (ii) the differences in charges between types of commodities according to their values and bulk need not be wide and marked as in railway rates. Because of the first, road transport will favour dispersion of economic activity as against its concentration which is encouraged by railway rates. Secondly, road transport will not help the carriage of cheap and bulky goods over long distances for working up or exploitation. In many ways these tendencies implicit in a road rates structure are useful correctives to forces set in motion by rail transport. The immediate need, therefore, is to encourage a proper building up of an integrated road rates structure for each region. Zoning has always been recognized to be a very arbitrary measure and the single officer or Board control on National highways is equally arbitrary. A single officer control might work well only when the principles on which that control was to be operated were clearly laid down. But it would certainly be objectionable and could lead to no constructive and useful results when conditions are as fluid as they are today in the matter of goods rates and traffic. Therefore, there should be no essential departure in this regard from the system adopted for passenger control. An initial limitation of traffic distance would be automatically achieved by the division of transport areas into regions and by the prohibition of the operation of specific types of vehicles over certain road surfaces. Even though route licences would not be suitable for goods transport, goods transport licences would ordinarily be restricted to regions within the control of a single transport authority. Any license which goes beyond the authority of a region should certainly be given only upon a close examination and with specific conditions attached. These restrictions would be sufficient to deal with problems such as those created by the movement of cotton by road over very large distances. Secondly, the goods transport concerns could also be encouraged to amalgamate and, in particular, to evolve an integrated rate structure. And goods transport control should work up to the publication

and enforcement of such a rates structure. The only problem in roads transport that would appear to make difficult the working of a normal rates schedule is the empty return journey. Normally, however, the possibilities of such traffic are predictable and it should not be difficult to make a suitable allowance for them. Instead, therefore, of adopting a completely arbitrary system for goods traffic control the system of regional licenses together with the evolution of controlled rates would seem to meet best the requirements of the case. It is absolutely essential that road-rail relations and their comparative rates should not, at this early stage, be put up into any fixed moulds by the adoption of such a measure as a zoning limit. It is also highly undesirable to differentiate sharply traffic on National highways from traffic on other related highways and roads. It might be noted that the report on service and rates of the English Transport Advisory Council (1937) follows an approach similar to the one advocated above. The U.S.A. Interstate Commerce Commission has also followed the policy of trying to determine minimum reasonable rates and letting traffic divide itself among the competing transport agencies on that basis. If these policies are found appropriate in highly developed countries as U.K. and U.S.A., a policy that curbs development, as a monopoly inevitably does, is certainly not desirable to be accepted in India.

MEMORANDUM ON SCALES OF SALARIES SUBMITTED TO
THE CENTRAL PAY COMMISSION.*

The fixation of salary scales by the Central Government has importance much beyond the ordinary in the present circumstances. Scales that will be fixed now and the principles laid down in the fixation will define in a large measure conditions of living for the middle and professional classes in India of the future. They will consequently also define the main pattern of the distribution of incomes among classes in India. This question must therefore be considered in a spirit and manner entirely different from that in which it would be discussed at other times or in other countries where the facts of distribution can be and are taken for granted. When the fundamental issue regarding the distribution of incomes among classes is not raised, the problem of salaries of government servants can be considered merely as one of providing, in the given environment, for adequate recruitment and maintenance of the strength of the services. The data relating to past experience and to comparable professions and employment can then be properly utilised for arriving at valid results. With us, however, at this juncture, the past affords no guidance except perhaps in the negative sense, and the use of the comparative data could not yield valid results.

I hold that the salary policy of government was the chief factor in creating the particular type of urban, professional, middle class, standard of living now obtaining in India. I also hold that the maintenance of existing standards of official salaries is financially impossible and economically and socially harmful to the country. Further I consider that government as an employer of intellectual and middle class labour is in such an overwhelmingly dominant position in India that it can by its own action completely mould the pattern of income distribution in the country. At the same time, the opportunity of deliberately

* Submitted in November, 1946.

setting a pattern radically different from the pre-existing one arises or can arise only extremely rarely. In my opinion such an opportunity has arisen at the present time. A radical transformation of the political scene is proceeding apace and there is a possibility that an entirely new set of economic and social values may begin to dominate governmental policy. The sweeping away of the contracts made by the Secretary of State for India with the highest officials gives, for the first time, an opportunity for the fullest reconsideration of salary scales. Decisions can be taken now with complete freedom from past commitments and any other restrictive limitations.

On the other hand, the recommendations that this Pay Commission makes and the decisions that government takes on their basis will be important enduring facts in the future. Once certain scales of pay are sanctioned and recruitment proceeds for a time in accordance with them this involves commitments and creates contracts and expectations which persist for a very long time. Any radical departure from them, especially a departure which involves a lowering of scales, then becomes extremely difficult. The opportunity now open will not recur. The present is avowedly a time of transition and is acknowledged by all as such. The termination of contracts with the highest officials, the temporary nature of a great deal of employment and of grades and scales of war years and the expectation that the implementation of new policies might lead to radical changes, all invest the work of this particular Commission with great importance. It works under greater freedom than any similar body has ever worked in the past in India. It is, as a corollary, burdened with correspondingly greater responsibility. Once the new pattern is set it will harden. Conditions will not remain flexible, governments will not be able to disown responsibilities for past actions and the claims of older recruits and their scales will continue to influence all new decisions. I feel, therefore, that the manner in which this Commission approaches the question of determining standard of remuneration should be very different from that indicated in its questionnaire.

The work directly entrusted to the Commission under its terms of reference covers a large enough sphere; in fact, the influence of its decision will affect an even wider area. It is well-known that the demands of employees of Provincial Governments for revision of salary scales are being put off by pointing to the work of this Central Commission. The revision of salary scales in the provinces will follow upon the

report of the Commission and the action of the Central Government thereon; and the lines of action of provincial governments may be assumed to be determined in the main, by the recommendations of the Central Commission. Local Self-Government authorities and other bodies like the Universities will in due course base their salary scales in relation to the new pattern set by the centre and the provinces. The work of this Commission, therefore, in nuclear work which will affect employment and payment over a vastly larger area than that included in its direct terms of reference.

The experience of the past or a review of existing conditions of employment in government service or outside are of little use in determining the lines of future action. The present scales of government salaries in India have been dominated for almost a century by important external considerations. The scales for higher public officials have been determined entirely by the need of attracting to India highly qualified persons from a distant country, at least 10 times richer than India, in which opportunities of employment for such persons were especially wide. I have dealt with the evolution of salary scales in India in some detail in a brochure published many years ago. I believe that I have proved in this brochure that the necessity for recruiting Englishmen in the higher services placed the scales of salaries for them at a level which had little relation to the economic life or financial resources of the country, that the effect of these high salaries was powerful even on scales of the provincial services and that the failure to make proper adjustments at the time of provincialization and Indianization of services in 1920 and after increased enormously the direct evil effects of the initial distortion. Because of these facts the past is no guide at all in the fixation of future salaries. The past merely exemplifies in a continuously aggravated form the influence of English standards. It would be wrong, therefore, to judge of the adequacy or otherwise of present salaries in the light of what was paid in the recent or the distant past.

Data relating to employment in other professions, trades, industries etc., will provide no useful comparisons. In India Government agencies have been and are the largest employers of labour of all types. Therefore, instead of government standards being determined by standards outside, it is the official scales and salaries that have influenced the conditions of pay and work for other employers. In agriculture the wages are notoriously low and barring the special boom of war years the profits

have also been small and precarious. The rich among the agriculturists have not been workers or entrepreneurs but rent-receivers and holders of privileges.

The employment in industry and trade for the middle and professional classes has been small until recently. The payments made by the industrialists and traders have usually been influenced by payments made by government because government service was a prior and a more extensive avenue of employment than employment in industry and trade. The scales of pay given by industrialists and traders cannot thus be taken as independent data. In the earlier days of the establishment of modern industries in India the highest technical personnel had to be imported from abroad. Therefore, the same influence that distorted governmental salaries was present in remuneration to technical experts employed by industrialists. That bias together with the level of salaries in government services have influenced the later level of payments in industrial employment. The salaries in industry and trade have reached high figures and employment within them, for the educated classes, has become significant only during the last 25 years. During this period most industries have grown with the help of fiscal protection or other type of assistance from government. The calculation of costs of production, etc. made by government in determining the measure of assistance to industry, has allowed for the salaries of technical persons and other employees at the rates prevalent at the time. The capacity of industrial employers in the future to pay salaries will continue to depend very largely on the measure of government assistance given to them. The social policy which is now adopted regarding salary scales of public officials will also dictate the allowance to be made on that account in the measurement of industrial or other costs.

Moreover, in the future the field of industrial employment is not likely to widen in comparison with that of Government. The nationalisation of transport and other public utilities may be expected almost immediately and the time may not be far distant when most industries in which the scale of operations is large and which are managed by large corporations would also come under management of official or semi-official organizations.

The higher incomes in the professions cannot, it has always been recognized, appropriately be compared with the salaries of officials. In most countries, including India, outstanding success in law, medicine,

etc. comes only to very few and it involves a period of apprenticeship and waiting which only a very small number can afford.

In the questionnaire issued by the Commission two tests of remuneration find specific mention. Question 6 asks whether the payment of public servants doing comparable work in England provides a valid criterion for determining the limit of payment for Indians holding posts in public service in India. Obviously the criterion is entirely irrelevant. Conditions of life and remuneration in England have no more significance for decisions taken in India than conditions in any other foreign country, say, U.S.A. or China. It might have been otherwise if the question had referred not to absolute payments but to proportionate levels. Proportionate levels would indicate the distribution of incomes between classes and it might no doubt be useful to find out what patterns of such distribution obtain in other countries and which of these would be the most appropriate for us. Question 7 refers to market values of particular classes of recruits. When only a small section of a market is under consideration conditions in other parts can furnish useful comparisons; but when the greater part of the market is being completely reconstituted such comparisons lose their significance.

The distribution of income in society depends chiefly on the institutional and the legal structure of that society. The distribution of income among classes is not fundamentally determined by any external physical factors of the type that might influence the relative prices of commodities. The historical situation regarding the division of society among classes and castes, the system of education, the system of recruitment to professions, services and trades, these mainly determine the strength of the different classes and their comparative remuneration. Wide basic equality of incomes, a system of free education and the absence of hindrances to admission to any walk of life make for a comparative equality of income distribution. The opposite set of conditions perpetuate and aggravate inequalities. It is a part of public social policy to set definite aims regarding the pattern of distribution and to achieve them by an appropriate economic and educational policy. The fixation of the salaries of the public officials is one of the most important factors, if not at present the most important factor, in the moulding of this policy. The present inequalities of distribution as between the poor and the middle classes were born out of certain policies followed by the British during the last century. The initial inequalities have grown very

greatly during the last 25 years. A perpetuation of these inequalities will make it impossible for a progressive economic or social policy to be followed by governments in India.

The case for comparative equality of distribution rests on many grounds. Natural justice and considerations of social peace may be urged in favour of attaining as large an equality of distribution as is immediately practicable. Apart from these such equality is necessary even from the point of view of a proper direction to production and the attainment of a minimum standard of living by the mass of our people. It is notorious that at the present level of our national income the attaining of the barest minimum by the bulk of the population is impracticable. Greatly increased production of the basic necessities of life and their equitable distribution would have to be among the foremost objectives of any future economic policy for India. This requires a concerted plan of economic action, one of the main features of which will be a control of the consumption of the well-to-do. An unequal distribution of incomes bring about a distortion of production targets also. The problems of production have therefore to be met by (I) attempting to correct inequality in distribution directly and (II) controlling the expenditure of the well-to-do. In countries like England and Canada, during war, a fairly equitable distribution of consumers' goods was brought about (1) by taxing the rich and middle classes heavily and (2) by severely controlling the distribution of commodities and thus affecting the consumption of the well-to-do. However, such policies are practicable only where the initial inequalities are not too large. The major difficulties experienced in the work of rationing and other war controls in India arose out of the inequalities of wealth distribution in India being much greater than those even in England. Therefore, a realignment of levels and incomes of different classes is among the most important initial problem of policy in India.

It should be noted that no historical or social forces of a persistent character prevent this type of effort towards attaining comparative equality. Among countries for which data are available England shows the extremest forms of inequality among the salaried professional classes on the one hand and the skilled and unskilled labourers on the other. This inequality of distribution of incomes in England has been the result of an old and persistent class division in that country. The recruitment to its higher civil service reflects this class division. In other countries

where the professional and educated middle classes had not a similar position, as in Germany and in France, the inequality of incomes reflected in the gradations of salary scales was very much less pronounced. In the colonial countries, with their bias in favour of equality, variations are also notably less than in England. In countries like Japan, where a new salaried class has arisen from the midst of an older medieval type of society the inequalities have also not become as large as in England. Apart from the influence of the British standards, nothing in the Indian situation suggests that the inequality in this country should be large. The caste structure, which is the peculiar feature of our social life, has little relation to the distribution of incomes in society. Members of the highest caste, the Brahmins, have never been among the richest; and professions such as that of education or medicine did not command large incomes under indigenous rule. The administrative services proper were also not extravagantly paid and this state of things was in evidence till a few decades ago in most of the Indian States. There is nothing in the present day costs of education to warrant particularly high scales of salaries. There is not as in England a dominance among holders of posts in the higher civil services of persons belonging to specific classes with certain educational equipments and traditions. (Cf. Dale: *The Higher Civil Service of Great Britain*, 1942, Chapter III). There may be a dominance of certain castes among the higher administrative officials, but the family origins or the educational history of the officials from these castes would not indicate any class bias. So that, for those who find entrance to the higher services the transition from the original family standard of living to the one made possible by the new scales of pay is, in the majority of instances vary large.

In this connection it should be emphasized that men become quickly accustomed to a high standard of living and to pitch their demands accordingly. It is not at all unusual to meet persons who might have been easily satisfied with less than Rs. 500 p.m. in 1939 who would demand today a minimum salary of Rs. 2,000 because of the changed circumstances during war years. Similarly, over a longer period i.e. especially since 1920, there has been a steady increase in the expectation of salaries of the educated classes in this country. The result has been that to the division among castes and to the division between urban and rural strata has been added this latest division of class amongst our people. It is not necessary to dilate upon the wholly bad results of this tendency.

General revisions of all salaries have little effect on the recruitment of particular types of officials or on the recruitment of the salaried class as a whole. Where all salary scales are revised simultaneously no question arises regarding salaries attracting or repelling people in particular directions. The supply of competent persons as a whole is also not affected either in the short or the long run by such an overall revision. The overall supply in the short term is never affected at all by variations in salaries. Certain types of technicians and categories like chemists and economists found their services greatly in demand during war time. The remuneration given to these classes rose rapidly during this period largely because of foolish competition among different organs of government itself. The supply of competent people of those ranks was, however, in no measure and could in no measure be increased on this account. As for the long run, the supply of competent personnel will depend more on educational policy, the efficiency of training and the methods of recruitment rather than on salaries.

The standard of living can be invoked in determination of salaries only at the stage where measurement of basic physical needs is required. The attempt to define the "living wage" made by the Bombay Textile Labour Enquiry Committee may be taken as an illustration of this. At this level absolute objective measurements relating to requirements of human life are possible. Above that level, when conventional necessities or conveniences or luxuries come in, the judgment regarding standards of living will depend on social values and measures of differential variations. But there is no way of defining the differentials from grade to grade. Between the skilled and the unskilled or the skilled and the clerical classes some allowance for length and costs of training or for the higher age of entry may be made; but after these initial allowances are made the more elaborate structure of the salary scales is a matter entirely of preconception, prejudices or of data and objectives given by policy. In my opinion, it is, therefore, necessary that the Pay Commission should ignore the data relating to present or past salary payments in India and the demands of various classes of government servants and what they consider to be the necessary standards of consumption for themselves. The Commission should start its work with the determination of the two points which would define the degree of inequality to be tolerated. One point would be given by the salary to be paid to the least skilled or trained category of persons (adult males would be more appropriate for

this purpose) in government employment. The other would be given by the number of times this salary that it is thought proper the highest government official should get. Some attempt to measure relations of this type made by me 15 years ago revealed that in no country other than England was the proportion between the unskilled labourer's wage and the highest official's salary larger than 1 to 15 and that in England it was about 1 to 30. In post-war England conditions have changed and a very much larger degree of equality than before is being introduced. The determination of the degree of inequality to be tolerated in India of the future has no doubt to be made in an arbitrary manner. I suggest, however, that a measure of inequality greater than, say, of 1 to 25 should not be tolerated; it should be emphasized that the suggested relation of 1 to 25 is very far indeed from being a socialistic proposal; the degree of inequality involved in it is still larger than in most advanced capitalistic countries of the world.

There is no doubt that an adjustment in this manner of salary scales or a reorientation of salary policy will involve an adjustment of most other features of the environment of public officials. The scales of travelling allowances, the type of residential accommodation furnished for government officials, etc. must no doubt be appropriately adjusted to the new conditions. That this is highly necessary from every other point of view, especially, that of making the higher official more directly aware of the environment in which all problems of administration are posed is absolutely indisputable. Neither should the adjustment downwards be found as difficult, after the first storm of protest has passed, as is sometimes imagined. After all the lower middle classes of India from whom the bulk of higher officials are drawn have a lowly standard of living. The abolition of the extremely small number of prize posts for which very large numbers of members of this class compete will not in any way harm them. Actually it might make for the restoration of a balance and a sense of reality among the educated classes of India.

The salaries of high officials have been specially referred to in the foregoing because their radical revision is the main problem today. It is, however, equally important to bring about as large an improvement, as possible, in the remuneration to the lowest grades of employees. The main limiting consideration here is that of the financial resources of government. It is hardly likely that a living wage of the type defined by the Bombay Textile Labour Enquiry Committee can immediately be

granted to all in government employ. The fact that a living wage proper cannot be given to many in government employ is a reason both for a radical revision of the higher scales and for such increase in the lower ones as might be practicable. I have not been able to give much attention to detailed statistical examination of the recent position. On a broad review of the question one might suggest that (at price levels whose definition has been given elsewhere i.e. 200 on base of 1939=100) the lower menial (adult male) pay might be put at Rs. 40 per mensem and the lowest point of the clerical grades at Rs. 50 per mensem. The general structure of the services would, it is presumed, be as simple as possible in future. Assuming that this structure would be of the type (i) clerical (ii) officers, lower grade and (iii) officers, upper grade, the tentative limits of the pay scales structure might be placed as follows. Clerical Rs. 50—200 p.m.; Officers lower grade: Rs. 100—300 p.m.; Officers, higher grade Rs. 200—600 p.m.; Rs. 600 p.m. would thus be the highest limit for the graded scales. These differentials and the range of scales correspond largely with those contained in the Tomlin Commission's Report.* The highest salary according to the proportion indicated above would be placed at Rs. 1000 p.m. The range between Rs. 600 and Rs. 1000 would provide adequately for the high selected posts carrying individual salaries such as those of heads of departments and the highest secretariat posts.

ADDENDUM.

The field covered by government employment in various income strata cannot today be statistically measured. Sample data which illustrate conditions in a part of the field have, however, been compiled from the report of the Poona Survey conducted in 1937 by the Gokhale Institute and have been presented in the accompanying table. The total number of earners in Poona City and Suburbs included in the sample of families have been classified into categories and sub-categories of occupations and according to the ranges of annual income in Table No. 54 in the report of the survey. With the help of these data a table has been prepared showing adult male earners divided into 5 broad classes. Two small sub-categories of the survey data could not be properly fitted

* Royal Commission on British Civil Service 1929-31, Baren Tomlin (Chairman), Cmd. 3909.

into these five categories and have, therefore, been omitted from the table. The other categories and sub-categories have been divided into the following five classes: (i) manual of supervisory workers (ii) salaried employees of government or semi-government organisations (iii) salaried employees of private persons or firms (iv) professional occupations (v) owners of businesses, shops, workshops, factories, etc.

The table brings out that government and semi-government employment is important in all ranges of income above Rs. 400 per annum. Official employment completely dominates the field in categories above Rs. 750 per annum. The table makes it clear that apart from small and precarious openings in the liberal professions or the ownership of large business, which is of course dependent on capital and other assets, there is no alternative other than government service to the middle and educated classes. No doubt, for some communities entry into trade and industry may not be difficult, but for those for whom it is not easy (and these form the bulk of the middle class in most regions) government service is the chief avenue of employment. Consequently it determines entirely the fortunes of the middle classes as a whole.

Poona is not an industrial city and, therefore, the Poona sample may not represent adequately the situation in the largest industrial cities of India. On the other hand, Poona is one of the largest cities in the country and the opportunities for professionals and even in industry and trade are much larger in it than in the vast majority of smaller towns and in the rural area. The Poona sample cannot, therefore, be considered to give an exaggerated picture of the importance of official employment in the country as whole.

Classification of Earners by Classes of Occupations and Annual Income in 1936-37.
(Compiled from Table No. 54, from "Poona-A Socio-Economic Survey, Part I—Economic".)

Classes of Occupations.	Income below Rs. 400	Rs. 400 to Rs. 500		Rs. 500 to Rs. 750		Rs. 750- Rs. 1000		Rs. 1000- Rs. 2000		Rs. 2000- and over.		Total.		
		No.	Percent	No.	Percent	No.	Percent	No.	Percent	No.	Percent		No.	Percent
I. Manual and Supervisory Work	2,176	62.58	100	32.05	75	18.94	11	10.19	4	1.82	—	2,366	51.17	
II. Salaried Employees of Official and Semi-Official organisations	323	9.29	59	18.91	97	24.49	50	46.30	88	40.00	50	45.05	667	14.42
III. Salaried Employees of Private Firms & Firms	202	5.81	66	21.15	46	11.62	7	6.48	2	0.91	—	823	6.99	
IV. Professional Occupations	113	3.25	12	3.85	38	9.60	6	5.56	43	19.55	21	18.92	238	5.04
V. Owners of Businesses, shops, workshops, factories, etc.	663	19.07	75	24.04	140	35.35	34	31.48	88	37.73	40	36.04	1,035	22.38
Total	3,477	100.00	812	100.00	396	100.00	108	100.00	220	100.00	111	100.00	4,624	100.00

SOCIAL LEGISLATION AND PLANS OF IMPROVEMENT*

There is, at present, considerable talk about planned economic progress. In India, plans of development must concern themselves largely with agriculture and the countryside and will involve, in view of the poverty of the peasant, expenditure of public moneys on an unprecedented scale. The physical results of this expenditure will depend, in the main, on the efficiency, on the technical and administrative sides, of planning authorities. The economic and social results, and partly even the long term physical results, will depend on appropriate legislation and policies being adopted in the economic and social sphere. A radical change in the present pattern of economic relationships is necessary to prevent untoward results flowing from the planning effort; and this adjustment must precede and not follow the execution of the plan. An attempt is made in what follows to indicate the salient features of this problem.

Any large and planned expenditure of public funds on the development of economic resources which are, in the main, owned by a large number of persons within the State makes it necessary to provide that (i) the results of the expenditure will not remain insufficiently utilised and (ii) that the distribution of the increased income will be such as to give relief to classes who need it most.

The attainment of the first objective implies a number of provisions of which the chief seem to be the following. Firstly, it would be necessary to provide for the maintenance of the improvement by the person in charge of the improved property. The legislation which provides for compelling owners of property to co-operate in plans of common improvement should be supplemented by laws which impose on the holders of property the obligation to maintain the improved state at a given standard and in default authorise government either to undertake the maintenance itself and charge the owner with expenses or in extreme

cases to take over the administration of the improved property. Similar provisions must be made in relations to the maintenance by the holder or operator of a reasonable standard of exploitation of the improved resources. For, it is as wasteful of public funds not to utilise an improvement properly or fully, as not to maintain it. It also follows that for a proper working of these provisions government will have to arrange for constant supervision and periodic inspection of the improvements and the improved areas.

Secondly, where it becomes necessary for obtaining full advantage of the improvements which have been carried out that the unit of production such as the cultivating holding in an improved area must be increased, legislation must be undertaken in this behalf. Legislation for consolidation of holdings is one example of such legislation. However, if consolidation is considered necessary in order to reap the full effects of an improvement legislation must also prevent the break-up in future of the consolidated production unit. If a consolidated production unit is allowed to be broken up the maintenance as well as the full utilisation of the improvement will be rendered difficult. Any effort at the formation of economic units of production as part of the plan of expenditure on improvements must thus be accompanied by measures which secure the continuance, unbroken, of these units.

In all probability it would be found necessary to go even further. The existing structure of private legal rights in land and other property obstructs the direction and pace of planned development to a considerable extent. It consequently becomes necessary for the state to take powers to set aside these rights for specific purposes. Laws for the acquisition of land for public purposes represent the general type of legislation in this behalf. Such legislation of a varied and detailed type is a necessary accompaniment of economic planning. The Central Provinces Act relating to the consolidation of holdings compels a minority of landholders to fall in line with schemes approved by specific majorities. Schemes of erosion control have to be planned, as a whole, over large areas and cannot be implemented without a measure of compulsion. Conservation and the proper utilisation of important national resources require restricting the liberty of private exploitation or even taking over private assets for management by the state. The Government of Bombay has recently vested itself with power to take over, if necessary, the management of private forests. At present, action of this type is confined

to the immediate occasion and purpose in hand. And it is usually not taken until the inconvenience to or the waste is notorious, large and continuous. If the state is to undertake large expenditure of public money in any area it must provide in advance for contingent action of this type in a way that will be neither cumbrous, nor expensive nor dilatory. Before launching on the plan of improvement which will, presumably improve the value and utility of land and other assets in the tract, legislation should equip the state with appropriate powers not only for the specific purposes and period of the plan but also to enable it later to undertake with ease any projects of further improvement or any effort at a more comprehensive or detailed direction of planned productive and other activities which may be found necessary or desirable. This means that the rights that the state might at present acquire for planning and carrying out common improvements, for their maintenance and proper exploitation and for giving directions to the latter should not relate to any particular act or plan of improvement but should be held permanently by the State in all improved tracts.

In respect of the second objective the emphasis should be on the prevention of an accrual of unearned increment, in either capital or income terms, to holders of existing property rights as a result of the expenditure of public funds. The chief manner of providing for this would be to see that the existing level of incomes from property of those who are merely receivers of income therefrom and are not also directly active operators are not increased because of the improvement. One or two illustrations will make the point clear. In the Bombay legislation relating to adjustment of debts the amount of adjusted debts is made dependent upon the value of the assets of the debtor and the assessment of his repaying capacity. All the existing debts of agriculturists have been contracted with reference to the present assets and income of the debtor. The expectation of repayment by the creditor and the terms that he offers to the debtor are fixed in relation to the existing conditions. Plans of improvement carried out by the state will bring about a material change in the value of assets and the current income of the agriculturists. In the absence of any preventive action this will automatically yield an unearned increment to the creditors on their old outstanding debts. This will happen because the whole basis of their original calculation regarding regular or full payment of interest and capital by debtor will have been changed. The measure of this unearned increment might in some cir-

cumstances be very large. For example, in many tracts the creditors habitually take out a bond for a sum much larger than the one actually lent. They will, in case of improvement, be able to enforce a very much larger proportion of this figure than even they had expected or the debtor bargained for. It must, therefore, be provided that in the adjustment of debts contracted prior to improvement the measurement of value of assets and of the repaying capacity of the debtor should be made on the basis of his capital and income position before the improvement. The suggestion that has already been made by the Government of Bombay that the income of a soldier on service should not be counted in determining repaying capacity provides an analogy for this step. Liquidation of existing usufructuary mortgages stands on the same footing as the liquidation of existing debts. Some provinces have at present no legislation relating to the compulsory liquidation, within a term, of usufructuary mortgages. All provinces which attempt large plans of improvement will have to adopt such legislation. Further, wherever the creditor is enjoying the usufruct of the land and its measure is considerably enhanced by acts of public improvement, provision must be made to assess this enhancement properly and to liquidate the mortgage in a suitably shorter period.

Legislation relating to adjustment of debts provides for the past; legislation regulating the activities of money-lenders should provide for the future. In absence of legislation which properly regulates their activities it might be expected that public expenditure on improvements will result largely in enriching this class and strengthening its hold on land. It has been the common experience that an increase in the resources of the cultivator leads, in unregulated conditions, to an increase in his indebtedness and leads also to his alienating his rights in land. It was part of the original Bombay scheme of debt adjustment that all, whose debts had been adjusted, should be allowed to be financed in the future only by a resource society. It would similarly be extremely desirable that in all tracts where efforts at concentrated improvement are to be made all old debts are immediately adjusted on the old basis and all new finance should be provided only by co-operative or state agencies. If this is not possible it should at least be provided that the operations of private money-lenders in such tracts are very strictly supervised and the scale of charges that they are permitted to levy is definitely determined. For this purpose the supervision by the state over the activities of money-lenders

will have to be more continuous and detailed than is at present the case anywhere.

That the landlord will obtain an unearned increment of income and capital from public expenditure on improvements is equally likely. The existing tenancy legislation in most provinces provides effective protection for only a small class of actual cultivators. For the bulk of operators even in Zamindari areas the security of tenure is not unqualified or even quasi-permanent. In the Ryotwari tracts the legal protection given to tenants is much less. Wherever there is a term to tenancy or the landlord has the right to resume land in any other manner public expenditure on improvements will lead to present tenants being ousted by landlords either in order to cultivate lands directly or in order to improve the yield of rentals. A minimum of security of tenure to the actual cultivator, whatever his legal status is, therefore, an essential part of public policy relating to improvements. Secondly, it must be considered whether reasonable rent after improvement should be interpreted as relating to the land and other assets before improvement or after improvement. If it is the aim of public policy to direct all the increment resulting from improvement into the hands of the actual operator then reasonable rent even after improvement takes place must be fixed in relation to the unimproved state of land. So long as a large class of tenants-at-will or any other class of inadequately protected tenants exists anywhere and so long as the competition for land remains as keen as it is in many tracts the expenditure of public money on improvements will result almost entirely in benefiting the class of landlords. The larger the class of unprotected tenant operators and the keener the demand for land the less likely it is that the plan of improvement will actually benefit those for whose advantage it is presumably undertaken. A comprehensive measure of tenancy legislation which gives security to the actual operator and limits the rental charge that can be levied on him is thus a *sine qua non* of a plan of improvement. Such tenancy legislation is necessary not only to guarantee equitable distribution but also to provide for an efficient use of improvement. For, without security in continuous and profitable operation the proper exploitation of improvements by tenant-operators cannot be expected.

To conclude, any concerted plan for the development of economic resources must be preceded or accompanied by laws which secure the proper utilisation of this development and of its results. In the first

instance laws must provide for the maintenance of the improvement and for its continued exploitation at a minimum standard of efficiency, they must provide for an economic unit of continued operation and for social direction of production wherever and whenever necessary. Secondly, agricultural improvement must be preceded by the adjustment of old debts on the pre-improvement basis and must be accompanied by provision for either co-operative or state or strictly regulated private finance for future agricultural operations. The agriculturist-operator must also be placed in a position where he can look forward to a secure and continuous exploitation of the improved resources at a charge which does not entrench upon the results of improvement.

WARTIME CONTROLS AND PEACETIME ENDS.*

The most important question that faces the government and the public in India today is the pattern of economic policy that will be adopted by the State in the immediate future. It is difficult to predict what that pattern will be because there is yet little certainty about the composition of our ruling class and the quality of our rulers. The bulk of our political leaders have made a number of public pronouncements regarding economic policy among which a prominent place has been given to the objective of the raising of the standard of living of the mass of workers and peasants; but these pronouncements cannot be easily reconciled with other declarations of political leaders and especially with the actual development of administrative practice of Provincial Governments and the Central Government during the last year. The problem of increasing the standard of living is intimately connected with a plan of economic development. Such a plan will find it necessary to utilise for peacetime ends our existing equipment of regulatory devices which is a legacy of wartime controls. This inheritance from war years needs, therefore, to be looked at from the point of view of the use it can be put to during the forthcoming period of reconstruction.

The history of the development of wartime controls in India is in the memory of most. The major feature of the development of wartime controls in India was that both in origin and in growth they were the products of much less deliberation than controls in other countries. The war-time Government in this country was not a democratic Government and it found necessary for some years of the war period to work against the opposition of important sections of the people. Also, during the early period of the war, Government believed that India was far away from the actual theatre of war. Therefore, whereas in the European countries and in the Dominions, war-time controls were developed in the light of the experience of the war of 1914-18 and preparations for them

* *Problems of Indian Labour—A Symposium*, Labour Bureau, Government of India, Ministry of Labour, Publication No. 2, 1947.

made before the beginning of the war or during its early years, India began, as the European countries had done during the war of 1914-18, with *ad hoc* controls adopted to meet only immediate needs and extended as new emergencies arose. And we never had any really concerted effort on the part of the Government to get the variety and complexity of these diverse control measures co-ordinated or integrated. This may be illustrated with reference to the problem of food. During early war years, it was thought that a deficiency in food supplies was, for India, a remote contingency. It was only with the imminent cutting off of rice supplies from Burma that the problem of food began to claim attention of the Indian Government. During this early phase—as witnessed in the history of early wheat and general price control—the problem was not thought to be serious and before Government realised what they were up against, one of the major disasters in modern Indian history, the Bengal famine, overtook us. The history of the inception and development of other controls was also similar. The problem of financing the war effort was not serious till about 1942. The price levels remained in check without any special effort on the part of Government. When, however, in 1942, the problems presented by the Japanese war, both of making available vastly increased physical supplies for war purposes and of financing the war effort emerged, our administrators were found entirely unprepared to tackle them. No doubt, a number of extraneous factors made it difficult for them to take radical and drastic steps similar to those taken in European countries and in the Dominions. Making due allowance for these, it is still true that our administrators had neither a clear idea of the gravity of the problem nor adequate knowledge of the procedures and methods evolved for meeting them in other countries. Indeed, in 1942 and 1943, most high officials were appalled at the thought of introducing a regime of detailed controls in a country of the area and population of India.

To the unpreparedness of Government for introducing controls and the haste with which they had to be actually introduced must be added the inability of Government to make a firm stand against important interests. This last affected vitally the levels of prices of both agricultural and industrial products. As regards agricultural prices, the Central Government encountered the difficulty of resisting Provincial opposition. The Governments of surplus agricultural provinces like that of the Punjab could not, on account of political considerations, be forced to moderate

the demands of the producers of their provinces with the result that in the basic commodity, foodgrain, control of prices and procurement operations remained always unsatisfactory. In industrial prices, the Indian Government was equally unable to resist pressure from capitalist interests. Till 1942 and sometime after, Government did not at all contemplate controlling the prices of even the most important commodities for civilian supply. The prices, for example of cloth, or coal, were controlled for Government orders and fixed at what was considered by Government to be a reasonable level. Prices of all the commodities in the civilian market were, however, allowed to move up as they pleased. It was only when the inflationary movement in the country grew up to such proportions that it threatened to obstruct war effort itself, that Government stepped in to control civilian prices. The prices of cloth reached levels more than five times the pre-war level before Government intervened and when the intervention came, it was on terms on which alone the co-operation of the industrialists could be obtained. Cloth prices were, for example, put under the control of a sub-committee of the Textile Control Board which had an overwhelming majority of manufacturers in its membership. The original prices, under control, of coal were similarly fixed in consultation with an advisory board whose membership consisted chiefly of producers themselves. There was no attempt to fix the levels of these prices in the light of any objective considerations such as those of costs or profits. All prices, were in fact, negotiated prices, that is, prices which industrialists themselves were not reluctant to accept. The fixation of industrial or agricultural prices in India during wartime was thus in sharp contrast to the work of the Canadian Wartime Prices Board or the Ministry of Supply and other Control agencies in the United Kingdom or the O.P.A. in the United States of America.

At the end of the war, we had in India almost the same apparatus of controls as in other countries. We had a detailed system of rationing of food and perhaps a larger drive towards procurement of surplus grain supplies than in most countries of the world. We had controls on capital issues, on imports and exports in a variety of ways and over prices of most agricultural and industrial products. Even though this was so, the price level in India stood much higher than in any other country with a similar system of controls; the standard of living of the people had also suffered to a larger extent, the profiteering gains of industrialists, traders and speculators made as a result of the war were enormously greater and

the lack of a common policy of co-ordination much more glaring. This was because of the peculiar history of our wartime controls whose main features have been indicated above. We have the same formal structure as in other important countries but it has developed and operated very differently and has yielded results not experienced elsewhere.

It is necessary to emphasise this in order to realise the peculiar attitude of the people towards controls in this country and the need for educating public opinion. It is still the belief of large numbers of people in this country that the present ills could be ended by putting an end to the regime of controls. Moreover, this belief is held not only by the man in the street but also by responsible leaders of public opinion and even by those in authority and entrusted with the work of shaping policies. This is surprising because there is perhaps more talk in this country about an economic plan and evidently more agreement about the need of introducing it than perhaps anywhere else. Nobody evidently, not even the industrialists and traders, want to revert to a regime of *laissez faire*. Yet few seem to realise the direct connection between the continuance of controls as they exist today and the formulation and operation of a plan of economic development.

It is a part of necessary general education in elementary economics to show the extent of controlled regulation or even regimentation of all economic activity which most planning involves. One may take, for illustration, the results that would follow the working out of the Bombay Plan of the industrialists. It is safe to start with this because nobody could think of accusing the eminent industrialists of being unduly socialistic in their way of thinking or of favouring undue Government interference. This plan of the capitalists has, as its main aim, the increase of the level of national income and of the average standard of living. If it is accepted, it will mean, in the first instance, the fixation of a definite target for the total savings, directed into development and therefore controlled development of industrial effort in defined directions. This could not be brought about without such devices as control over capital issues, licensing of the setting up of establishments and directives for the location of industries.

For a country so dependent on foreign materials for industrial development, an economic plan could also work only with the help of very rigid control over imports. The recent British crisis has well shown how the foreign exchange resources of even rich and industrially advanc-

ed countries need to be conserved and guarded. For a poor country like India with a long period plan to operate, the need for the proper utilisation of accumulated foreign resources and current surpluses is many times more urgent. An industrial plan not only involves allocation of foreign exchange resources between broad categories, such as, capital goods and consumer goods but can be operated only with a detailed enumeration of the capital goods required for the setting up of new establishments or the expanding of old ones in all particular trades and industries. The allocations not only in initial capital imports but in later productive effort will have to be related to types and volumes of production required. If automobile plants are set up in the country, the plan will require them to produce only certain types and not to produce others. But an economic plan is not merely a production plan. Its distributive aspect is even more important in a poor country. If the target is to increase the production of cloth per annum per person from 15 to 18 yards, it is not enough to see that adequate new plant is imported and set up for the purpose. No real increase in the standard of living can be expected to take place merely because of such planning of productive equipment. It will have to be guaranteed that the extra cloth production is really of the sort that the bulk of the people require and is available to them at prices which they can afford.

There is however, an important difference between the working of wartime controls and the working of a peacetime plan. The single ultimate objective of wartime economy is to win the war. The operation of controls in wartime and the determination of priorities is, therefore, a comparatively simple matter. No internal conflicts of principle are likely to emerge in working a wartime plan. The matter is otherwise with peacetime planning. This may be illustrated by reference to priority problems. The aims of increasing progressively the total national income as also the average standard of living of the people are in the very long run not mutually incompatible. But a varying emphasis on them may produce very divergent results in the short period. This difficult problem was confronted by Russia through most years since the Revolution. It is generally said that the standard of living of the average Russian fell much below pre-1914 standards during many years in the 'twenties and the 'thirties and that it did not attain the 1914 level till just before 1939. For a long term of years, the standard of living of the average Russian kept low not only because of political and other results of the Revolution

but also because of the determination of priorities in the Russian plan. The primary aim of the expansion of basic capital industries was put steadily in the forefront and the Russian people had to content themselves with little general increase in the standard of living. Indian planners will encounter the same problem. Only, it will be much more difficult to solve in India than in Russia. The problem of Russia was that of a country which had large potential industrial and immense virgin land resources. Its main difficulty was only in getting enough capital to flow into the development of industries and agriculture. The Russian people had, as the saying goes, to tighten their belts, to enable a large inflow of savings into the economy for the plan of development. The problem in India is much more difficult because our undeveloped resources are by comparison meagre and our potential savings margin much smaller. The average standard of living of our people is even lower than that of the Russian pre-1914. How perilously near the margin large numbers of us live was well brought out by the extent of mortality during the Bengal famine.

Today, it is only a very rich country like the United States of America which can afford to talk of free enterprise and even indulge in it and yet not suffer economically. For all other countries which have much less of a margin to play with, a planned effort, with a full apparatus of intelligently administered controls, holds out the only promise of peaceful progress. When, therefore, we talk of an economic plan for a Free India, we must realise that this commits us not only to the maintenance of all the apparatus of wartime controls but also to its further elaboration. It may be that some of us think that controls involve so much regimentation that we would, in any event, do without them. But, if, we are all agreed, as we seem superficially to be, that the modern State is much more than a police State and that it has to work for certain social and economic objectives, we must be prepared for much regimentation before the standard of living of the bulk of our people could even be slightly increased.

The middle class bears a special responsibility in the decisions for the immediate future. Whether we have peaceful progress depends on the understanding displayed and the sacrifices made in the immediate future by this class. It will be this class that will furnish the large bulk of the personnel necessary to work economic controls and achieve economic planning. **Politicians as well as the ordinary man in the street allege**

today that the average administrator in India is neither efficient nor honest. It is, of course, equally generally agreed that our traders have little moral sense and that few among the public at large exhibit the strength of character necessary in a regime of controls. If one admits that the administering and the trading communities are both dishonest and the public lacks character, there is obviously no hope for the future. I, however, feel that this view is unduly pessimistic. The present situation is the result not of a fundamental weakness in national character but of the complete misdirection of public opinion due to a confusion of thought on the part of our leaders and intellectuals. The middle class must in this matter of the future of our economic policy speedily educate itself and try to educate others.

Today, we are all vaguely socialistic and egalitarian but few of us pause to reflect on the practical effects of even a mild attempt to abolish gross inequality. It is vitally necessary to spread widely a knowledge of basic facts regarding the standard of living of our people to provide the material for this reflection. Some of the problems have already come to surface in the working of wartime controls. One of the reasons why in a country like the U.K. or Canada problems of rationing could be solved comparatively easily was the measure of equality that obtained, even before the war, in the consumption of the basic necessities of life among all classes. In India conditions are vastly different and they give rise to almost insoluble problems in the devising and administration of rationing systems. Consider the problems of the sugar ration. The problem has been dealt with in different ways in different provinces. In the Central Provinces, the quantum of sugar given in the ration varies with income categories. This solution is obviously offensive to any egalitarian concepts. In Bombay Province, the variation in distribution of the quantum of sugar had been brought about by differentiating between persons not by income categories but by areas of residence—urban and rural. The Bombay system is not openly unfair as between the rich and the poor. It cannot yet be said to be wholly logical. The fact of the matter is that the overall per capita consumption of sugar has always been low and that the poor have in large regions of the country almost never consumed any. Any rationing system, in the circumstances, cannot achieve the distribution of available quantities without appearing to be either unfair or illogical. The difficulties recur in the distribution of cloth. A middle class family thinks the allotment of even ten yards of

cloth per person for six months as grossly inadequate. But the average pre-war consumption per capita was never higher than sixteen yards. That was the average because there were large number of persons in this country who never purchased perhaps even a yard of new cloth per annum.

A satisfactory system of the distribution of consumption goods thus pre-supposes the absence of gross inequalities in the distribution of income. It is only when gross inequalities are abolished that rationing systems can be reasonably well devised or operated. Any step in the desired direction can come about only if the middle class reconciles itself to an immediate lowering of its actual standard of consumption in order to contribute somewhat to a very slight rising of the standard of consumption of the poorest classes. The middle class must understand that immediately it has to help in the effort towards bringing about a distribution of income and consumption with a degree of inequality not greater than, say, that prevalent in U.K. before the war, and that it has also to help in achieving this end in a planned manner by giving the personnel necessary for an honest administration of controls and by itself co-operating fully with the operation of them. If it fails to appreciate the needs of the times and continues to put forward extravagant demands and live on large expectations, as witnessed by the evidence before the Central Pay Commission or by the recommendations of that body, there is little hope of peaceful progress in this country. For, in that event, the middle class will act as the natural collaborator of the reactionary elements represented primarily by the financial interests which have grown during the last twenty-five years to heights of wealth and political influence undreamt of before in the history of Indian society.

INTRODUCTORY NOTE TO "ECONOMIC EFFECTS OF IRRIGATION"*

The immediate aim of the survey whose report is now being published was to assess the total direct and indirect benefits due to a particular irrigation project. The problem involved in the investigation, the methods adopted for it and the assumptions that had to be made in carrying it out have, however, an interest much beyond the results of particular work. The investigation is closely related to the general problem of assessing results of all kinds of irrigational or reclamation projects. The assessments of the results of irrigation projects has been attempted by many in the past, both in India and in other countries. Results of some pioneer attempts in this direction are contained in an official publication entitled *Reports on the Direct and the Indirect Effects of the Godavery and Krishna Annicuts* published in Madras in 1858. This comprises a number of reports by various individuals and bodies on the effects, in particular regions, of specific irrigation projects. One may refer to the two reports by Mr. Taylor on the direct and the indirect effects of the Godavery Annicut in the Rajahmundry District to illustrate the treatment of the subject in this publication. (pp. 19-80). Mr. Taylor addresses himself primarily to discovering the increase in the revenue collections of Government in specific areas which could be attributed to the construction of the annicut. He, however, points out that "the employment of many thousands of people when they could not have found work elsewhere opened out to the labouring class a new and profitable means of livelihood and secured to the ryot, the tradesman, and the merchant, a large and certain market for agricultural products and merchandize of all kinds." (p. 23). He also refers to particular instances of changes in seasons of sowing and cropping which result in greater security and production and the introduction of new crops which are profitable. An attempt is made by Mr. Taylor to compare the ex-

* Publication No. 17, Gokhale Institute of Politics and Economics, 1948.

penses of and returns and profits from crops on dry land with those on wet land, as also the difference in rentals between the two. The change in the composition and volume of exports and imports from a region following on the introduction of irrigation is also noted and finally it is pointed out that "the stimulus imparted to the industry and productive resources of the Province by large establishments like the Rajahmundry Sugar Factory must not be overlooked". (p. 53). Mr. Taylor thus refers to almost all the aspects of the effects of irrigation, efforts at the measurement of which have been made in the following pages. However, the concrete measurement in Mr. Taylor's reports, as in other reports contained in this early official publication, was undertaken chiefly in terms of the collection of revenue by Government. This measurement also was mostly confined to the collection of land revenue; only in few cases was it extended to sources of revenue other than land revenue or water charges. The only statistical data other than collections of taxes, charges, etc., contained in these papers relate to figures of trade i.e. mainly of values of exports and imports from and to specific regions.

Subsequent writing on the subject in India has not gone much beyond what is contained in these early reports. As a matter of fact, there seems to have been, in later times, an undue emphasis on the revenue receipts from irrigation projects and most estimates and calculations in connection with the construction of irrigation works concerned themselves with the direct return on investment. Even when, in recent years, there has been an appreciation of the wider view, little systematic effort has been made at a measured estimate of the indirect and cumulative benefits. From papers relating to recent practice in the most intensively developed area, the Punjab, it would appear that chief among the indirect receipts for which calculations were made in the Punjab were those from Crown Waste. Mr. Kanwar Sain's paper on the finances and economics of irrigation projects refers to the increased return to the cultivator from irrigation from (i) increased land values and (ii) additional income from farm products; and he mentions the suggestions now made that methods should be devised for crediting irrigation projects with part of the increased land values. However, to our knowledge no attempt has so far been made in India either at assessing increased land values due to irrigation or at acquiring them, at least partially, for the State. Similarly no investigations seem to have been undertaken, before this project, either for estimating the total direct and indirect receipts of

government or at estimating the increase in the value of agricultural production or in the volume of other activities based upon it.

For the U.S.A., reports of the Bureau of Federal Reclamation and other official agencies contain a wealth of data. These indicate problems very similar, in many respects, to those encountered in India. The general practice in regard to assessment of benefits, etc. may be illustrated by reference to the report of the Committee appointed by the Secretary of the Interior for a study of the success and soundness of federal reclamation policy.¹ The report notes that the crop values, for different years, of annual production of the projects averaged nearly one-third of the Government's total investment in irrigation works and that therefore, the current creation of wealth through the projects was large. Reference is also made to data specially collected to assess the effects of reclamation on business. These data represented records of the expenditures for purchases outside the local trade territory by representative farms covering a period of 7 to 10 years. They showed that 75 to 80 p.c. of farm income was spent on purchase of commodities produced in the industrial sections of the U.S.A.; "in other words, only about one fourth of the farm production income was used for irrigation operation, tax payments, labour and local supplies". (p. 64).

The Report of the Special Repayment Commission (1938) cites the following among the major accomplishments or encouraging features resulting from reclamation programmes of the United States: (1) creation of a large number of irrigated farms (2) providing homes and means of livelihood for persons on farms within the reclamation project areas (3) establishment, stabilisation and business of cities and towns on or dependent on reclamation project areas (4) contributing a major part to the support of public schools, churches, banks, etc. within the project area (5) stabilised agricultural condition and production on project farms (6) the stabilising influence of water supply provided by Federal Reclamation works for agriculture in the West and as market for non-Western products (7) the value of crops produced on reclamation projects since 1906 approximately 10 times of the overall costs of irrigation works serving those lands (8) large increase in the average value of lands, inclusive of buildings (9) large increase in assessed values of lands (10) importance attached to the construction, maintenance and

1. *Report on Federal Reclamation*, J. W. Haw and F. E. Schmitt, 1934.

development of projects as a market for non-Western products by manufacturers, rail-roads and other transportation agencies (11) the volume of non-Western products shipped into the reclamation area exceeds the agricultural products of reclamation projects shipped East in a ratio of more than 8 to 1 (12) the reclamation programme was a pioneer in the public development of hydro-electric power in the West through multiple-purpose use of water resources (13) the grading of irrigated farms compares with that of other farms so far as the relative productive value is concerned. These various claims, which are not mutually independent or exclusive, indicate the many aspects of the results of irrigation and the directions in which direct and indirect benefits may be traced.¹

While the emphasis is on increased production in measuring the advantage to the community, land values have been held to be specially significant in assessing the repayment capacity of the individual operators. In the U.S.A. the irrigation system is not looked upon as a completely state owned capital work and part of the capital cost is usually recovered

1. Cf. also the following two extracts. "There is no way of measuring accurately the full contributions these enterprises have made to the business and social life of the States and communities in which they are located, and to the national wealth, but the following facts are pertinent: They have greatly aided commerce as the residents of the projects are buyers and sellers of a vast amount of goods and products. The projects have brought about improvement and increase in both highway and rail transportation. They have provided huge revenue tonnage for transcontinental carriers through regions of otherwise sparse traffic, and thus to an appreciable extent have lowered the rate levels on other commodities moving over their entire systems. They have contributed to education and to local government by the payment of taxes. They have made it possible to utilize fully adjacent ranges and to stabilize West. They are the main source of food supply for many mining and lumbering camps." *Report of an Economic Survey of Certain Federal and Private Irrigation Projects*, 1929, Bureau of Reclamation, p. 2.

"To determine the economic justification of a proposed reclamation project requires that a definite equivalent for the distributed benefits be fixed. Unfortunately, no factual basis for quantitative appraisal of regional, State and national benefits is now available, as already stated. The benefits likely to be derived by nearby towns and by associated industries and utilities can often be appraised at least approximately, but the general community benefits to State and Nation are less tangible. Some estimates of values created by existing projects, and increased business and traffic volume, have been attempted, but the interpretation of the figures is open to serious question. In any event, the appraisal of such benefits in advance of development would involve large uncertainties. At best only calculable money benefits could be determined, while development and social values such as those that lie in the creation of additional homemaking opportunities and stabilization of economic life are not reducible to money terms". Haw and Schmitt. *Op. cit.*, pp. 99-100.

from the operator. Land values and land speculation have become specially important problems in this connection. Progressively, the idea has gained ground that speculative increase of land values is a hindrance to proper development under irrigation projects and that, therefore, some means should be adopted to eliminate it. In the 1929 report Johnson had already laid down that in so far as government was pursuing a policy of settlement, it ought to extinguish every private title before encouraging a project and that the only significant objective for a reclamation policy was community building.¹

The Haw and Schmit report considered the increase in farm values as the best index of the payment that the farmer could be fairly asked to make.² It favoured a method of controlled sale after official appraisal to eliminate land speculation. The 1938 Special Repayment Commission recommended, on the other hand, that the procedure for determining water right payments for reclamation projects should be worked out by taking into consideration factors influencing ability to pay, particularly the efficiency of the project irrigation system, the right use of land and water, the uncertainties in agricultural production, the means of effective marketing, and should provide for adjustment of repayment contracts from time to time.³

In most reports dealing with the economic effects of particular projects benefits of irrigation are sought to be measured by assessing net returns of farms and by comparing net worth at the time of settlement with net worth later. In reports on projects under consideration estimates may be made of investments and expenses, deficits and surpluses, and capital and credit requirements on specific types of farm businesses expected to be established under the projects. Economic limits of irrigation water assessments may be calculated and indirect benefits may be sought to be assessed by demanding that as existing urban centres would stand to gain by particular projects they should bear part of its cost.⁴ General studies of the economic and social aspects

1. A Johnson: *Economic Aspects of Certain Reclamation Works* (1929), p. 14 and p. 16.

2. "The farmer's repayment should be fixed at the irrigation value. In addition, the farmer should be able to obtain the land title at unirrigated value, free from speculative increase". *Op. cit* p. 99.

3. *Op. Cit.*, p. 36.

4. Cf. W. W. Johnston, *Land Classification and Economic Report Casper—Alcove Project*, 1931, p. 35.

of irrigation cover a broad and varied field and may include such subjects as the effects of irrigation on industry and trade especially retail and to such aspects as the influence of irrigated agriculture on county government and of increased population density on school costs.¹

While the numerous reports and investigations, official and non-official, in the U.S.A. have thus drawn attention to a variety of the effects of irrigation works, investigations do not appear to be undertaken to study, in the case of any completed project, the effects of a particular scheme in considerable detail and to attempt to measure them in a variety of directions. Most indices of effects are related to the increase in land values or to the value of gross production and indirect effects are mostly indicated by pointing to the availability of a market for labour and for the products of industry.

Irrigation does not play the part in the countries of Europe that it does in India or the U.S.A. However, problems similar to those raised by irrigation in India are met with in connection with schemes of land reclamation and improvement in many countries of Europe. In these countries also an increasingly comprehensive view of the objectives and results of such schemes has been taken in recent decades. "Land reclamation is no longer judged from the simple point of view of economic profit, of a favourable balance of expenditure and receipts; but on the basis of the whole of the advantages derived from it, which go far beyond the narrow idea of the return to the private operator. The consideration is the increase in the aggregate return accruing to the farming and also the non-farming classes, throughout the country, from the fact of the increase in production, from the larger possibilities of employment and from the impulse given to internal land settlement".²

The land reclamation projects undertaken by European countries during the interwar period were, it would appear, comprehensively planned and judged by their overall results. In the Italian so called 'integral' land reclamation, reclamation did not end with drainage and levelling operations but was linked and coordinated with correction of water courses, irrigation works, organization of communications, erec-

1. Cf. Slavsgold and Matthews, *Some Economic and Social Aspects of Irrigation in Montana*, 1938.

2. G. Constanzo, *Land Reclamation and Improvement in Europe*, Monthly Bulletin of Agriculture and Sociology, Rome 1938—No. 10, p. 454 E. Most of the following account of European conditions is based on this article.

tion of dwellings for workers, formation of rural centres, distribution of electric power, establishment of agricultural industries and finally the campaign against malaria. Even in countries where it was not necessary to plan land improvement works so comprehensively, because the areas in which they were undertaken were already fairly well developed, a number of supplementary measures may yet be found necessary to reap fully the results of expenditure on the improvement scheme. For instance, in Germany the work of land improvement was closely associated with the consolidation of farm holdings.

In assessing the results of these schemes in Europe the main index used was increased productive capacity. The assessment was made in terms of areas of improved or reclaimed land and the increase in gross production or net return due to the effort of improvement and reclamation. In general, no efforts seem to have been made at finding ways of assessing in concrete terms the indirect and secondary effects flowing from the work of improvement. However, in specific cases, especially when an objective other than that of increasing production was also aimed at by the project, an attempt may be made to set up other measures. Among the objectives of the Italian schemes of integral land reclamation the employment of workers and their settlement on land were specially emphasized. The following were included in the stated objectives of these schemes: (1) Employment for the maximum number of workers, thus reducing unemployment; land reclamation works, apart from their intrinsic utility, are undoubtedly of great value in this respect. (2) Conversion of an increasing number of casual labourers into permanent cultivators, or farm settlers, thus encouraging internal land settlement. Because of these special objectives inquiries undertaken to gauge the extent of the economic results of "integral" land reclamation assessed them in terms not only of value of production and an index of gross production available for sale but also in terms of the amount of labour employed per unit of land and the percentage of job labour in total labour employed. The index of total labour employed per unit of land was devised to indicate the extent of the increase in total employment brought about by schemes of reclamation and the index of the percentage of job labour was meant to show how job labour might be progressively eliminated. It was noted that the index of job labour tended to diminish in a varying degree, sometimes reaching zero; the interpretation of this was that the farm worker had in the end settled

definitely on the land. These special indices were compiled in the Italian survey because of the emphasis on the settlement of labour in Italian reclamation policy. Even in the Italian survey, however, the main index used was of the increase in total production. The indices of labour employment and job labour related evidently to the amount of employment in agriculture under the reclamation schemes and did not refer to employment resulting from the indirect or the secondary effects of those schemes.

A set of analytical writings which has an indirect bearing on the problem considered in this publication are to be encountered in the field of business cycles, particularly, in relation to the problem of public works policy and its effects in counteracting forces of depression. However, most of this writing is concerned with theoretical models and, in quantitative expression, use has been made in it mostly of hypothetical figures. Though new terms with a quantitative significance, such as the multiplier, have been brought in, concrete investigations which would indicate the methods of assessment of these and the difficulties in the way of carrying it out are not met with. This set of writings is specially suggestive in connection with the indirect and secondary effects of capital investment.¹ Use has been made of them by us in connection with the classification of the various stages at which effects might be assessed. The assumptions under which the discussion of these effects is carried in connection with business cycle theory are, however, widely different from the conditions under which the direct and indirect effects of irrigation were to be estimated by us. Therefore, no attempt has been made to establish in this investigation any direct connection with either the concepts or subjects of the public works policy and multiplier controversies.

In recent years another problem has become prominent owing to the concern in planned economic development shown by governments. The problem is essentially that of estimating the results of the impact of a set of initial investments on other parts of the economy through their direct and indirect and secondary effects. It may be met with in a series of different contexts, such as definition of the conditions of general economic progress or plans for balancing the economy of a

1. Cf. J. M. Clark, *Economics of Planning Public Works*, Chap. 9, *Cumulative Effects of Public Expenditures*, 1935.

region or the industrialization of backward areas. In most instances the problem has yet been studied in terms of project plans, more or less complicated; and there has been little specific investigation of effects of measures of investments undertaken in the past.

Among the concrete measures that have been used for estimating direct effects two stand out with great prominence. These are the indices of (i) increase in land values and (ii) increase in gross produce from land. The land or farm value index is obviously an indirect index; land values are ultimately dependent on the increased return from land to its owner. The rise in land values would be based obviously on the expectation of the increase in the average return from land over a series of years; and this would, in the main, depend on the improved productive capacity of land. Measurement of total effects through increase of land values may be attempted and preferred because (1) this increase might be more easily and accurately ascertained than the increases in produce and (2) it might be argued that land value figures, in so far as they reflected expectations, would give an indication regarding average long term results and not results relating to a particular year or time. However, the land value index would not necessarily reflect the unmixed effects of the average increase in the expectation of return from the land in question. For, it is liable to be influenced by many factors which may have nothing to do with the particular scheme or area under consideration, or even with agricultural operations in general. Fluctuations in the level of land prices as a whole, the general price level, the rate of interest, may all affect to a significant degree prices of specific lands under consideration independently of variations in their productivity. Again, the index of land values may contain a speculative element unrelated to existent facts and would depend among other things on the legal, etc. structure of land ownership rights and on restrictions, if any, laid on the rights of the owner of land to alienate land. All these considerations make the land values index a less satisfactory measure of the total effects of schemes of irrigation and land improvement than a direct measure such as that of increased production. In case the problems of estimating increase due to land improvement in production are successfully got over the direct effects in any given set or conditions could be most satisfactorily measured by this index.

The measurement of increased production and its valuation would, of course, reflect the particular circumstances of the period chosen for

investigation. Agricultural yields may vary from season to season and prices are liable to fluctuation. Therefore, any estimate made for a particular period may not be representative of average conditions. It is, however, possible to estimate average results in the light of data relating to the range of seasonal fluctuations in yields and of records regarding prices in the past and estimates in the future.

Something may be said in passing regarding the indices of gross and net production in connection with the problem of measurement. Gross production would, of course, mean total production from any particular activity, such as agricultural exploitation of land surface, during a period of time, without any deduction on any account. In connection with the enquiry under consideration the term net would most significantly be used by allowing for a return on the capital, and for the cost of working and maintenance of the work under consideration as a deduction from the gross figure. The net benefit from capital works would thus represent calculation of the product over and above the addition which would go as a set off against the current and capital cost entailed by the work. Net product as defined in this manner would be arrived at through estimates of the gross product and calculations relating to the annual charge on account of capital cost, maintenance and operation. The latter calculations have little direct connection with any part of the investigation, in the actual field, of the effects of capital investment. The aim of the investigation is itself, therefore, usually confined to the estimation of gross production. Net product in other senses of the term i.e. as the excess of income over outlay in a particular economic activity or as the share available for distribution apart from expenditure on materials, defined sometimes as social income, have no relevance to the general problem under consideration. It will appear that some use of these other concepts of net product is made in specific contexts in the report.

Another point needs emphasis in a preliminary discussion. The effect of a capital work may, in the early stages, be the compounded effect of the work in the course of its construction and of the permanent increase in activity arising out of the completed work. The elaboration of the concept of the multiplier was largely concerned with the effect on the economy of expenditure in connection with public works in process of construction. In a number of investigations and writings on irrigation and reclamation works, the effect of the process of construction and the

effects after construction, following on the functioning of the work as a completed work, are sometimes discussed together. This report give no consideration to effects during the process of construction of the work. It is concerned entirely with the effects of the whole work after it has been completed.

In this connection it is also necessary to distinguish between actual and potential results and between short term and long term results. The full exploitation of a capital work may be dependent on undertaking a large number of subsidiary works of all kinds. This may mean considerable capital outlay. Apart from this necessary supplementary activity, full exploitation may not be attained before a minimum period of time which may be required for, say, the settlement and building up a community of farmers. It has, for example, been noted that from 30 to 50 years are needed to bring an irrigation community to full and stable development.¹ Some attention has been paid in the report to costs incurred by government or by private entrepreneurs in clearing and developing, etc. the land and making full use of irrigation. No consideration was, however, given to the problem of community building. The investigation was undertaken more than 20 years after irrigation from works began. However, no systematic efforts at exploitation of the area under command had been made, and government had adopted an attitude of complete *laissez faire* towards the problem of the development of farming communities. Therefore, progress had been uneven and not very rapid. When ultimately depression forced Government to consider means of stimulating the demand for water, attention was directed not towards the creation of communities of farmers with adequate resources and knowledge to practice intensive irrigated farming but to giving special concessions to sugar companies to induce them to settle and acquire the land. Thus, as would appear from the report, in some areas full effects of irrigation were not at all apparent at the time of the survey while in others the stage of development reached might well be termed mature. No attempt is made in the report to arrive at any estimate of total potential effects and the extent of unrealised potentiality. The investigation was confined to finding out the actual results that appeared to have been obtained.

1. Haw and Schmitt, *Op. Cit.*, P. 67. In recent studies of the Bureau of Reclamation the types of farm economy best suited to a project area during the period of development are indicated separately from the types at the mature stage. Cf. *Columbia Basin Joint Investigations*. Problem 2 (1946).

The problem of the extent to which unutilised or idle resources are available for exploitation of the opportunities opened by capital works is relevant to this survey. The consideration of the possibility of employing idle resources is of great importance in the multiplier approach. It would have been of special relevance in our investigation if instead of estimating the effects of works at the stage of maturity the pace of the process of development had been studied. For, in that case it would greatly matter at what rate and from what source the additional capital and labour resources required for the exploitation and development of opportunities were made available. The findings of the survey definitely indicate the fact of a considerable under-employed population on the fringe of the irrigated tract. But the investigation did not bear at all on the availability of capital resources within or without the tract. Therefore, it paid no attention to the importance of the process by which a farmer in the tract could go on to increasingly intensified capitalistic exploitation of land after water supply became available. This process has two aspects. The first is knowledge of and familiarity with the technique of irrigated agriculture, which would be lacking in a community of farmers brought up and trained to dry farming methods. The inflow of trained elements from other irrigated communities into the region surveyed was, under conditions of complete official indifference, a necessary consequence. The other aspect concerns the capital resources required to practice intensive irrigated farming. These might either be wholly borrowed from outside; or else with a minimum initial start the area and degree of intensity may grow at an increasing pace through the increasing surpluses available as a result of the progressive exploitation of a business itself. The pace of the latter process would depend to an important extent on the phases of the cycle of prosperity and depression encountered.

One feature which differentiates the irrigation works of the Deccan from those of the Punjab or most Federal Reclamation Works in the U.S.A. is that they did not affect, in the main a region that was previously undeveloped. The lands watered by the Godavari and Pravara Canals system had been developed for centuries past and bore well-organised and fairly populous farming communities before the advent of irrigation. Irrigation resulted not in settling a new region but in changing the aspect of a farming area. Therefore, a survey of this region was calculated to bring out fully the results of the transition from dry farming to irrigated

farming. Data for such aspects as farm equipment, production, population and trade were, in this region, available for a mature dry-farming economy and could be used for a fruitful comparison between the two different types of farming. Material for such detailed comparison could obviously not be available in areas where irrigation works developed unsettled or very sparsely populated land. It is for this reason perhaps also that similar surveys have not been attempted elsewhere.

It is not necessary to call attention, at this place, to the general features of the results of the survey. One aspect of the conclusions appears, however, to have specific importance in connection with the problem both of the multiplier and the progress of industrialisation or economic development. It is, that the indirect and secondary effects of investment depend greatly on technical possibilities inherent in the new product independent of the volume of additional production which may be the direct effect. The extent of the direct effect is determined to a large extent by physical conditions and possibilities of exploitation in the field and cannot be simply related to the total volume of investment. For the same volume of investment, the extent of the direct effect may differ widely because of differences of physical conditions and technical possibilities. Moreover, for the same volume of additional production the indirect and secondary effects may differ widely. These effects, especially the secondary effects, may depend not on the volume of additional production but on the extent to which it was capable of, or required being, worked up. The difference made by this factor could be very large; it might vary all the way from new production being all in terms of a consumption good which required not even primary processing, to its being a raw material which served as the basis of a very complex industry. The difference made to the employment and other structure of a region by such factors is clearly shown in the report of the survey by the differences in the effects between the fruit orchard and the sugar cane regions. This would seem to render infructuous any attempt at postulating average quantitative relations between the volume of investment, the added product and the area and extent of indirect and secondary effects in general terms. The relation in each case could be known or estimated on a complete study of the physical and technical conditions of the particular region in which economic development was planned or was taking place.

**FOREWORD TO THE REPORTS OF THE COMMODITY
PRICES BOARD ED. BY N. V. SOVANI***

In bringing out this publication the Institute is following a somewhat unusual course of action. The publication does not embody work carried on at the Institute or under its direct auspices. It comprises a collection of all the reports submitted to the Government of India by a short-lived organisation, the Commodity Prices Board, set up by that Government. The Institute was connected with the Commodity Prices Board in so far as I had been deputed by the Institute to work as member of the Board while continuing to be a member of the staff of the Institute. Ordinarily this circumstance would not, by itself, have led the Institute to undertake publication of the Board's reports. As in the case of, say, the Tariff Board the reports would have become available to the public through publication by Government. Publication by Government is, however, apt to be a longdrawn process. Today, after more than a year after the end of the Board only three of the reports have been published by Government and only two of these are freely available. Also, even if all the reports are, in course of time, published by Government they would be available in the form of individual reports separately published. The Institute considered that an early publication of all the reports of the Board in one volume was highly desirable and decided to undertake the project. It was enabled to carry this out, permission to publish the reports having been kindly granted by the Finance Ministry of the Government of India.

It has been thought desirable to bring out this publication on account of a variety of reasons. In the first instance, the reports of the Commodity Prices Board contain a wealth of factual data which is, for the larger part, not available to the public or even to students. The data relate to the financial structure, production programmes and working results of individual units in a large number of industries and to some

* Publication No. 20, Gokhale Institute of Economics and Politics, 1948.

industries as a whole; to the fluctuations in prices under control and outside it during the war period and to the operation of systems of price-fixation; to a variety of matters relating to internal and external trade in a number of important commodities. Secondly, in the general note on controls and in the reports on individual commodities or groups of commodities the reports present a full picture of Indian economy at the end of the war and of the problems of adjustment facing it in the post-war period. Above all the reports raise and discuss a variety of questions relating to the operation of a controlled economy in India. It is now clear that Indian economy, of at least the near future, is to be a controlled economy. A wide understanding of the manifold problems arising out of the attempt to work a controlled economy is greatly to be desired. The main reason for putting forth this publication is the belief that it may help in bringing about such an understanding.

Throughout the six months of its activity the Board worked continually under pressure and on most of the references made to it, it had to report within a period which would be normally considered as extremely inadequate for the purpose. The Board had to comment in many of its reports on this inadequacy. This was the smallest of the difficulties under which the Board worked. The major difficulty was the lack of a well-defined policy on the part of Government. The Board had foreseen this difficulty and had, within eight weeks of its beginning to function, submitted to Government a general note on controls which sought to formulate salient questions of policy and obtain clarification in respect of them. The Board was not able to obtain any policy directives from Government during the term of its existence and was not even successful in persuading Government to publish its note on controls. Not only were no positive general directions on policy given to the Board, but also the Board could obtain no indirect evidence on the working of the mind of Government regarding economic policy. When, for example, after many weeks of suspense Government made an announcement regarding Vanaspati prices no indication was given to the Board as to how Government had arrived at the particular decision and as to why the recommendations of the Board had proved unacceptable. Finally, in the matter of coal prices when certain calculations made by the Board were thought unsatisfactory the fact was not even communicated to the Board before announcing Government decision. In view of all these difficulties in the working of the Board I

tendered my resignation of membership on 15th July 1947. I continued to work on the Board pending acceptance of the resignation which took place towards the end of September. The President of the Board resigned immediately afterwards and the Board ceased to exist. Retrospectively, this appears to have been the most suitable end to the short-lived experiment. For, with the policy of decontrol that was adopted before the end of 1947 the Board would have found itself without any *raison d'être*. The fate of control policy and the existence of the Board were, in effect, sealed when Government was persuaded to appoint the Food Grains Policy Committee and to refer to this Committee the question of the prices of Kharif grains which was already under reference to the Commodity Prices Board.

The system of price controls in India never equalled in comprehensiveness or in detail the systems in other advanced countries. The principles and procedures for the fixation of controlled prices were also neither well developed nor uniform in India. It cannot be said that the work of the Commodity Prices Board contributed to any substantial extent towards removing these defects. All that the Board could do, within the period of its existence, was to pass under review the problems of principle or procedure raised by each reference and to attempt to build up cumulatively a consistent mass of doctrines. The decisions on principles and procedures arrived at by the Board had to be shaped with reference to the objectives that it set before itself. In the absence of directives from Government, the Board assumed the objectives indicated by it in its general note on controls.

Two reasons prevented the Board from elaborating a scheme of detailed provisions for the fixation of relative prices. In the first instance, the necessary material for the purpose was available neither with official agencies nor with the industrialists. Secondly, the references made to the Board showed that the fixation of the basic prices of important groups of commodities had itself yet to be put on a firm footing; a consideration of questions of detailed price gradations had, therefore, invariably to be postponed. The Board, again, was not an executive authority summarily arriving at decisions but a quasi-judicial body which had to argue out all important issues and support by elaborate calculations all quantitative recommendations. It had, therefore, to concentrate attention on broad questions and general levels, until at least the principles and procedures established by it had received general

recognition at the hands of the Government and the public. On this account, the reports of the Board contain fuller discussion of the general economic problems raised by the working of controls than the reports of price-fixing authorities in other countries.

Only two of the reports of the Board deal with problems of prices of agricultural products. Little reference is made in these to costs of production or profits of business, because such data were almost completely lacking. Even if the data had been available for selected regions or classes of farmers it would have been difficult to determine their significance for the general level of prices of these commodity groups throughout the country. Attention was, therefore, paid chiefly to the relative prices of the main agricultural products, the relative internal and external price levels of particular commodities and to problems relating to the price level of the future and its stabilization. The fundamental problem in relation to agricultural prices which, as in the case of food grains and cotton, were basic to the whole economic structure was the determination of the generalised frame-work of prices of the future and its stabilization. But this could be tackled only on assumption of a well-defined official economic policy.

It was chiefly in connection with the prices of agricultural commodities that the relation of internal controlled prices and the external trade in the commodity came under consideration. The reference relating to the export duty on cotton raised the problem specifically. It was also raised in connection with the price of Vanaspati. Vanaspati is a manufactured product. The control of the price of Vanaspati was, however, desired by the Government of India as a means chiefly of controlling indirectly the price level of groundnuts. In consequence, a consideration of Vanaspati prices led to a consideration of the price level of groundnuts and of the factors—internal and external—affecting this price level. Successful control of a price level presupposes ability to insulate the price level from forces normally influencing it. A government which is not able or willing to undertake the supplementary controls required to enforce its price policy must inevitably find itself both unsuccessful and discredited.

In the sphere of industrial prices the Commodity Prices Board encountered the usual problems connected with the determination of costs of production. The technical and statistical problems involved in arriving at a fair cost price for industrial products were not explored in

great detail by the Board. However, examination of the report of the *ad hoc* Committee in connection with the reference on cloth and yarn prices led to laying down certain minima of requirements for a satisfactory statistical sample and for adequate data for costings. That current procedures were far from satisfactory and existing data far from adequate will appear also from the reports on Vanaspati, coal and paper. The report on coal fully illustrates the extent of the lack of statistical information of even primary importance and the difficulties created by it. The reference on coal involved the determination of the burden on industry imposed as a result of certain wage and allowance increases. Calculations regarding these, of the degree of accuracy required for the purpose, could be made with the help of broad data regarding the number of workers classified by the major categories, their average attendance and average rates of earnings at the time the increase took place. Data, free from ambiguity or difficulties of interpretation, could not be obtained even on these essential points and the Indian consumer of coal paid, in all probability, a heavy price for this lack.

Theoretical considerations regarding the determination of costs became more prominent in the references made to the Board than the technical or statistical questions. The concept of the costs of an industry inevitably raised the problem of finding the representative firm; and in all instances under consideration the representative firm remained elusive. Units in all industries examined by the Board exhibited wide variations in capital structure, accumulated resources, locational and other advantages, technical efficiency and business standards. In no particular could the calculations made for one type be made to apply to another. Moreover, in many industries there was no even gradation from the strong to the weak units. In industries like coal or paper the giants and the pygmies constituted two distinct blocks without any large middling strata. These conditions gave special importance to the problem of the average versus the marginal. To the industrialist the cost-plus basis in relation to the marginal producer appeared to be the obviously reasonable basis for price determination. From the point of view of the community no basis could be more wasteful. It can be easily demonstrated that the margin indicates the level of price determination in a fully free and competitive economy. However, even in a free economy with monopolistic or imperfect competition the average assumes special significance. And an economic policy which combined

the abolition of competition with the adoption of the costs of the marginal unit as the basis of controlled prices could obviously serve little social purpose.

While the impropriety of the marginal approach in a regime of controls was clear, its rejection created problems relating to production programmes and incentives, on the proper solution of which depended vitally the success of the regime. These problems had become specially acute by the time the Commodity Prices Board was created. In the early days of controls the rise in the general level of prices had so altered the costs-price relationship as to leave an ample margin of profit even to the marginal producer. Also, in these days the prices were negotiated prices. In the course of years, costs had risen, while the early control prices had been either maintained or even brought down, in instances in which they had previously reached specially high levels. By the time, therefore, that the Commodity Prices Board was established, the less efficient or the less favourably placed producers in a number of industries found their margin of profits being reduced to an uncomfortably low level. In the circumstances, there was much talk of certain producers being forced to cut down or cease production and of national production effort suffering in consequence. In no case under reference to the Board could an exhaustive enquiry be made into the extent of the margin available at current prices and the possibility of cutting into wasteful portions of it, as in other countries. However, whatever the actual facts in particular cases, the problem thus raised of production programmes and incentives under controlled prices had to be squarely faced.

The operation of incentives in a regime where only prices were controlled and no direct control was exercised on production activity was fully exhibited in the reference on the prices of cloth and yarn. To a large number of producers in the cotton textile industry, the structure of controlled prices offered a way out of the problem of falling margins. They could keep up their margins by continually going fine. It was reported that they did this wherever possible and that the movement was responsible, in the main, for the fall in production. An alteration of the structure of controlled prices might no doubt have partially corrected the misdirection to production. But it was clear that such alteration could not proceed beyond a point and that when the difference in profit margins arose out of fluctuating phenomena, such as prices of

raw cotton, controlled prices could not be altered soon enough or far enough to prevent the misdirection of production effort from the national point of view.

A regime of price controls might be adopted for a variety of reasons. It may be intended to bring about an equitable distribution of necessities or to meet a phase of the trade cycle or to direct productive activity into specific channels, etc. In most such cases it presumes the inability of uncontrolled prices to achieve the socially desirable ends in production and distribution. It is illogical, therefore, to expect that in a continuous regime of controlled prices the systems of production or distribution would operate satisfactorily with the same incentives as in a free economy, especially as it is clear that changes in controlled prices cannot be brought about either with the same rapidity or within the same range of permissible variations as in a free economy. That the incentives appropriate to a free economy do not operate satisfactorily in a controlled economy is then not so much a charge against the controlled economy as a description of the conditions of its existence.

Direct controls on production arise out of the need to provide for a satisfactory working of controls on prices. Controlled prices may not afford, for all time, incentives, through the profit margin, required to call forth a given volume of production or a given composition of the total volume. Production ends may then be achieved through either directly laying down production targets and programmes, or by a system of pooling profits which divorces the connection between the specific price and the profit to be earned by producing the particular commodity, or by a combination of the two. Where pooling is impracticable the end may be achieved by subsidising particular production. The prescription of production targets and programmes was common in wartime in a number of countries, including India, especially in connection with the production of military requirements. The Bombay Growth of Food Crops Act may also be considered as laying down a broad production programme for agriculture in the Province. Reference is made in the report on cloth of the Commodity Prices Board to a scheme for the rationalization and standardization of production in each unit in the cotton textile industry. Such a programme, if enforced, would effectively divorce actual production from the profit margin. It is obvious that directed production is easier to achieve if the varying profits on particular production are not allowed to accrue to individual producers.

Pools are meant, at least in part, to achieve this purpose. Instances of such pools are cited in the reports on iron and steel prices and on the prices of kerosene and petrol. The idea of the equalization fund discussed in the cloth report was directed also towards the same end. Pools and profit equalization are helpful in the enforcement of production programmes. In the absence of directed production, however, they have the demerit of taking away the spur of the possibility of loss which may ordinarily help to maintain a minimum standard of efficiency in productive activity.

Such are some of the simple economic relations which are concretely illustrated in the various reports of the Commodity Prices Board. If a controlled economy is to operate in India, with at least a minimum degree of efficiency and minimum amount of general satisfaction, there must come about a much wider understanding of these among the politicians, the officials and the public than was found existing last year or appears to exist even today. The Board's general note on controls presents in the context of Indian conditions the case for the maintenance of a controlled economy. Its broad arguments are as valid today as they were when the note was first written and it is likely that, in the changed circumstances, the arguments may receive more favourable reception, even at the hands of Government. This publication is thus put forth in the hope that it may prove useful not only to students and academicians but may, perchance also serve a more immediately practical end.

THE ECONOMIC PROSPECT FOR INDIA *

What is the economic prospect for the new Indian Union as its first government approaches the end of its second year in office? A study of the manner in which this government has dealt with the immediate economic situation, and of those features of its long-term economic policy which have become clear, should help in visualising the outlook before the country. The performance of the new government in dealing with the immediate situation must be judged against the background of wartime developments, which may first be broadly indicated.

The most striking feature of the development of the wartime economic situation in India was the unpreparedness of the government. During the early war years the government, believing that India would remain safely distant from the actual theatres of hostilities and that its physical and financial resources would not suffer great strain, made no effort either to obtain adequate knowledge of wartime economic controls in other countries or to evolve suitable procedures of its own. Indeed, until 1942-43 most high officials in India were appalled at the thought of introducing a regime of detailed controls. Regulation of the wartime economy, therefore, proceeded with the adoption of *ad hoc* controls to meet pressing needs, and these were extended as new emergencies arose.

To the unpreparedness of the government to institute controls and the haste with which these then had to be introduced must be added the inability of the government to take a firm stand against important interests. This factor affected the controlled price level of both agricultural and industrial products. As regards agricultural prices, the central government encountered provincial opposition: governments of surplus agricultural provinces like that of the Punjab could not, on politi-

* *Pacific Affairs*, Vol. XXII, No. 2, June 1949.

cal grounds, be forced to moderate the demands of their producers. In consequence, control of prices and procurement operations affecting the basic commodity, food grain, remained unsatisfactory. As regards industrial prices, the central government was equally unable to resist pressure from business interests. Until 1942, it did not contemplate controlling prices of even the most important commodities for civilian needs. The prices of, for example, cloth, or coal, were controlled for government orders and were fixed at what the government considered to be a reasonable level. Prices of all commodities in the civilian market, however, were allowed to rise as they pleased.

Only when the inflation grew to such proportions that it threatened to obstruct the war effort itself did the government introduce control of civilian prices. The prices of cloth rose to more than five times pre-war levels before the government intervened, and, when intervention came, it was only on terms which assured the industrialists' co-operation. Cloth prices were, for example, put under the control of a sub-committee of the Textile Control Board, the overwhelming majority of whose members were manufacturers. The original prices, under control, of coal were similarly fixed in consultation with an advisory board whose membership consisted chiefly of producers. There was no attempt to fix price levels in the light of any objective considerations such as those of costs or profits. All prices were negotiated prices, that is, prices which industrialists were not reluctant to accept. The fixing of industrial and agricultural prices in wartime India thus offered a sharp contrast to the work of the Canadian Wartime Prices Board, the Ministry of Supply and other control agencies in the United Kingdom or the Office of Price Administration in the United States.

Such, broadly, was the situation when the Interim Government assumed office in the third quarter of 1946. This government could have chosen either of two courses of action: (1) to correct the mistakes of the previous government, to integrate and coordinate controls, and to pursue an intelligent and firm policy regarding prices under control, or (2) to lift the existing controls and to let economic forces operate at will. That a definite choice was not made for more than a year may be explained chiefly by the mixed composition of the Interim Government. The Congress Party, one of the two parties that constituted this government, had received considerable help, in its recent

growth, from Indian business interests and was controlled by political leaders who had many connections with these interests; the other political party—the Muslim League—was, on the other hand, bitterly opposed to Indian capitalists. The leaders of one political party, therefore, openly talked and worked against the regime of controls, while the representatives of the other party favoured through the departments in their charge all measures which would control and diminish the large and growing power of the capitalist group. The result was unfortunate in all respects. The Finance Member (Mr. Liaquat Ali Khan) imposed through his budget greatly increased burdens on personal incomes and business profits, while the Industries and Supply Department insisted on following a policy in relation to the control of distribution and pricing of essential commodities which rendered nugatory all attempts at rationalising the system of controls.

The decision to partition the country put an end to this impossible situation, and after the partition the governance of the Indian Union was left in full and undisputed control of the Congress Party. Almost as soon as the new government had had time to settle down, it embarked on a policy of decontrol. During the war, the governments of the provinces had built up food-grain procurement and distribution systems on a scale more or less elaborate depending on whether they had a deficit or surplus of food-grain production within their areas. The operation of these systems had depended to a considerable extent on the imports of food grains that the central government had been able to secure from abroad. The aim of the whole system, whose elaboration had taken place chiefly after the Bengal famine, had been to guarantee everyone a minimum supply of food grains at controlled prices. The new policy in relation to food controls was formulated by a committee which put in the forefront "the definite aim of liquidating government commitments as early as possible". Following this aim, controlled distribution of food grains was restricted to a few industrial centres, and control over their prices was lifted except in the rationed areas. The prices of sugar, refined and raw, were also decontrolled shortly thereafter, and decontrol of cloth and yarn prices followed within a couple of months. The country passed, as a result, from a state of "suppressed inflation" to one of open inflation.

All of the commodities whose prices had been decontrolled were

essential consumer goods, the demand for which in India was steady and supplies of which were known not to be abundant. Financiers and traders in the country had accumulated large liquid funds, and numerous classes of consumers had, during the previous year, obtained considerable increases in their money incomes. Decontrol was, therefore, followed by speculative activity on the part of traders and attempts at increased purchases by consumers. The force of the resulting inflationary movement may be gauged by movements of index numbers.¹ The rising trend of prices generated grave discontent within the country. The government also discovered that, in the absence of controlled distribution, its attempt to prevent a continuous rise in the prices of food grains and a possible recurrence of such conditions as had existed in Bengal in 1942 involved an even larger import of food grains from abroad than had been necessary in previous years. The policy of decontrol was, therefore, abandoned. Control over the prices and distribution of cloth was completely restored; an understanding was arrived at with sugar manufacturers for some reduction in the inflated prices of sugar; and it was decided to reintroduce, by November 1949, all food controls that had existed in November 1947.

The cost of the decontrol experiment has been heavy. Prices as a whole have moved upwards, and resumption of controls could not mean a reduction of prices to their former levels. In fact, except in a few cases, like those of cloth and sugar, there has been almost no reduction in prices from peaks attained in the middle of 1948, and the Finance Minister declared in December 1948 that the immediate aim of the government could be only stabilization of prices and not their reduction from 1948 levels.

1. Movement of index numbers, November 1947 and July 1948.

(1939=100)

Commodity	November 1947	July 1948
Cereal food grains	317	474
Cotton manufactures	262	439
Sugar	212	377

It is, indeed, doubtful whether even stabilization has been or can be fully accomplished. The crucial question is that of food controls. Unless these are effectively enforced, a further upward movement in food-grain prices after the crops have been marketed is not unlikely. There is also the insistent demand by wage earners and salaried classes for an increase in their money incomes to offset price increases during 1948. Finally, the reluctance of the government to control the prices and distribution of consumer goods is almost as strong as before, while the pressure from manufacturers and traders in favour of freeing consumer prices is still considerable. These factors raise doubts regarding the likelihood of effective stabilization being attained in the near future. On the other hand, price rises in 1948 have largely neutralised the effect of the previously increased level of money incomes, and the trend of international markets may successfully dampen renewed movements towards higher domestic prices. If this happens, new problems will arise. The disparity between the movements of internal and external prices has been increased because of the events of 1948. A recession in international prices may thus cause difficulties in the maintenance of the par value of the rupee, and the government may find itself even less successful in dealing with the problems of a deflationary situation than it has been in dealing with suppressed and open inflation during the last year and a half.

The fiscal policy of the government during this period has intensified inflationary pressure. Central government's postwar budgets have all been deficit budgets, though the gravity of the resulting situation and the extent of the deficits have been concealed from the public, and possibly from the Finance Minister himself, by the practice adopted in 1946-47 of having a separate capital budget. Explaining the significance of this innovation, the Explanatory Memorandum on the Budget for 1946-47 stated: "This is an attempt to recast the form of the budget so as to show separately the Revenue, Capital and ways and means transactions. There is no change in the information hitherto given; the change is only in the presentation of figures." It is thus clear that the total deficit or surplus of the government is represented by the sum of deficits and surpluses in both the budgets and not by the deficit or surplus as shown only in the Revenue Budget. This simple fact has not received the attention of Finance Ministers. While displaying great concern over the mounting inflation, they have not appeared troubled by the huge

deficits incurred on capital account, which have fed it.²

The Government of the Indian Union has failed most notably in the sphere of economic affairs. It has shown neither understanding nor firmness in controlling the turn of economic events, and India has made little progress in the direction of either short-term recovery or the planning of long-term development. In part, this has been due to a conflict of forces within the Congress Party; this is being resolved gradually. The attitude and affiliations of most of the top leaders of the party have always favoured Indian business interests; however, the economic programme put forward by it in all of its campaigns was egalitarian and socialistic. This programme proved a considerable handicap to the party when confronted with the budget of Mr. Liaquat Ali Khan in the days of the Interim Government, but its influence persisted for a considerable time after the party's assumption of office. For example, as late as January 1948, a party committee presided over by the Prime Minister reported in favour of early nationalization of most of the major industries in the country. The old socialistic programme has, however, receded more and more into the background during the last twelve months and a new pattern of economic policy, especially industrial policy, has begun clearly to emerge.

Before delineating the main features of this pattern it is necessary to draw attention to certain characteristics of the structure of India's economic society. Trade and finance in India have always been con-

2. The following table shows the total deficits of the government in recent years and the manner in which they appear to have been met.

(In million rupees)

	1946-47	1947-48 (7½ months)	1948-49 (revised estimates)	1949-50 (budget)
Deficit on Revenue Account	452.9	65.2	15.5	5.5 (a)
Deficit on Capital Account	615.2	1,334.1	1,850.9	1,341.0
Total Deficit	1,068.1	1,399.3	1,866.4	1,335.5
Net reduction in Central Govt. cash balances	894.5	935.5	Data	
Net increase in total note issue	196.7	510.2	unavailable	
Total	1,091.2	1,445.7		

(a) Surplus.

fined to a narrow range of communities and large-scale industry has, for the most part, fallen under the control of a small section of financiers. It is safe to say that there is in India perhaps a greater concentration of economic power relating to industry, banking and insurance than in most countries of Europe and America. The Indian situation appears to have close similarity to that reported for China and Japan. An open field for private enterprise in India thus means essentially a field for the activities of certain groups of financiers and industrialists; private enterprise in India is also, in many other ways, far from being free enterprise. Many modern industries in the country have become established behind protective tariff walls. The iron and steel and the sugar industries owe their development entirely to protection granted for long periods. Old-established industries like cotton manufactures have had to seek, and have obtained, protection against Japanese competition. The list of industries which today enjoy protection is large, and most other industries expect to obtain it if in the near future they should be adversely affected by foreign competition. Further, the number of units in most Indian industries is small and, because of the concentration of economic power and the integration of financial control, industrialists have found it easy to act in concert. Even before the war, fixing of prices and division of markets were common in many industries, and today these practices are well-nigh universal.

When the industrialists pressed for decontrol during 1947, they were concerned merely with consumer goods; the control of prices and of distribution of producer goods like cement, coal, iron and steel initiated in wartime has been continued without any protest from them. There is also today fairly complete regulation of the import and export trade. Regulation of imports has been subject to some fluctuations in policy, but imports of the more important producer goods have always required licenses and the possession of sufficient currency to pay for the imports. All important classes of exports are subject to license. In most cases the total quota of exports is distributed annually amongst a limited number of persons. Allocations of coal, cement, etc. and of transport facilities, and the ability to obtain an import license, have, in the postwar period, largely determined possibilities of maintaining or enhancing productive capacity; and export licenses have enabled favoured parties to make enormous profits in particular instances. The Indian businessman seems to desire the maintenance of this regime of controls. All that he pro-

tests against is its logical extension either to government control of international trade, so that the profit from it may flow to the exchequer, or to the regulation of prices of the final products which the controls enable him to manufacture.

Reference may also be made to the extent to which tax evasion by industrialists and traders constitutes a major problem in India. The level of taxation on personal incomes and business profits has been fairly high in recent years and is comparable to those obtaining in the United Kingdom and the British Dominions. This fact has, however, proved no bar to a growing concentration of wealth and an accumulation of larger and larger fortunes in the hands of a few. It has always been known that the financial communities in India had developed tax evasion into a fine art. The extent of evasion rose to new and great heights with increased taxation in recent years, and the government was forced to assume wide powers and to appoint a special committee to deal with the problem. The committee was not successful in bringing offenders to book speedily, and it has now been decided to get at least something for government revenues by inducing the suspects to compound. This course does not indicate that a permanent cure for the evil is likely to be found. Tax evasion by the rich may, therefore, have to be taken as a chronic feature of the Indian economic situation, and much reliance cannot be placed on tax measures as means for redistributing incomes. The phenomenon is all the more alarming because among the names under investigation by the tax-evasion committee were reported to be those of many of the most prominent leaders of Indian business.

In the light of these facts, it is not surprising that there is a large body of opinion in India in favour of gradual nationalization or socialisation of important mechanised industries. As pointed out above, the leaders of the present government at one time insisted on the urgency of such socialisation. However, during the last year the government has repeatedly assured industrialists that it has no intention of nationalising industries, at least for a period of ten years. The only justification so far given for this *volte face* has been the inability of the government to run nationalised industry on account of a lack of qualified personnel. The plea is not convincing. During this same year the central government has nationalised the Reserve Bank of India, and many provincial governments have undertaken nationalization of passenger road transport, including the smallest of rural road lines. There is also

persistent talk of plans for regional development managed and operated by the government after the pattern of the Tennessee Valley Authority in the United States. It is difficult to convince people that a government which owns and operates that whole of the railway system of the country, and now undertakes nationalization of the immense network of road transport, is prevented by difficulties of management from embarking on nationalization of quasi-monopolistic, and in some cases highly-subsidised, concerns such as, for example, those in ship-building, shipping and air transport.

Recent government declarations regarding nationalization must, therefore, be taken to reflect a deliberate change of policy. The change indicates that the sector of private enterprise will not be narrowed any further and that Indian capitalists will, for a long time, have the fullest scope for pursuing their activities. Specific assurance couched in these terms, have been conveyed to industrialists in speeches of responsible ministers of the central government. While the impending industrialisation of the country is thus to be brought about mainly through private efforts, there is little expectation that any progress towards enterprise freer than at present will take place during the process. There is much talk of planning in the highest quarters. The proper utilisation of the accumulated sterling resources and the need for canalizing investment of foreign capital into the more important development projects will lead to some overall limitations and alignments. Controls over capital issues, over allocations of requisite producer goods and over important fields of import and export trade are, therefore, unlikely to be withdrawn. The dominant groups of Indian capitalists will, moreover, desire their continuance.

The prospect for peaceful economic progress in India depends on the extent to which the decision to develop the resources of the country through private enterprise can be reconciled with the aims and expectations placed before and entertained by the mass of the people. Such reconciliation can come about only if the government shows considerable intelligence and firmness in controlling the exploitation by private enterprise of the opportunities offered to it by the policy of the government. Nothing in the situation today suggests that this will be the case. It has been indicated that political circumstances forced on the wartime government a policy of appeasement in industrialists; the new government has given no indication of a desire to change the policy.

Its attitude may be illustrated by reference to the notorious instance of cloth production and prices. During the war, when manufacturers had the main voice in determining prices of cloth, there were many complaints regarding the pitch of the general level and the manipulation of individual prices. In spite of many attempts by government officers and committees, the manufacturers successfully resisted all attempts at standardising production and rationalizing the price-fixing system. The story has been repeated since. On the showing of the industry itself, the absence of standardization of production in individual units resulted in disruption of official plans for cloth production and cotton consumption. It was, therefore, the unanimous opinion of all who reported on the problem that revision of cloth prices and standardisation and rationalisation of cloth production should take place simultaneously. In the first two post-war years manufacturers were prevented only by pressure of public opinion from obtaining an increase in the price of coarse cloth, but they succeeded in evading control over production. Subsequently came complete decontrol and some months of hectic profit making; when control was resumed, the prices fixed were again negotiated prices and the government acquiesced in the industry's demand that it be left alone to produce what it liked. The new system of controls adversely affected all small retailers of cloth but assured manufacturers a market at guaranteed prices for whatever cloth (one might almost say of whatever quality) they wished to produce.

The fixing of prices of other products—coal, cement, iron and steel, etc.—has equally demonstrated the desire to appease the industrialists. It has indeed been reported that the Finance Minister thinks in terms of stabilising prices at the high levels attained in 1948 because he believes that industrialists can be induced to produce at full capacity only if assured an ample profit. Profits in Indian industry during the war and post-war periods remained high, occasionally, as for example in 1948, reaching record levels. The Indian industrialist is somewhat exacting in his demands. Only profits such as those enjoyed in 1948 spur him to productive effort, and the government appears to have no means other than the profit incentive of regulating his production. The new government will thus not only allow private enterprise a free field in industry but will also withhold such controls over prices or production as, in similar circumstances, would be deemed essential even in countries like the United States.

The government resolution on industrial policy issued in April 1948 states that "the system of taxation will be reviewed and readjusted where necessary to encourage saving and productive investment and to prevent undue concentration of wealth in a small section of people". At the time the government issued the resolution it did not, perhaps, think that these two objectives of taxation policy were mutually contradictory. Subsequent events must have led to reconsideration. Much has been said in recent months regarding the slowing down or cessation of investment in Indian industry. While this has been partly attributed to fear of nationalization, it has also been contended that existing levels of taxation make it impossible for the richer individuals or corporations to save on an adequate scale. Each successive budget of the Indian Union has lowered somewhat the levels of direct taxation attained in the March 1947 budget of Mr. Liaquat Ali Khan. It can easily be demonstrated that rapid industrialisation of a large and poor country through private enterprise must depend on the capacity to save of the limited group of industrial investors and industrial enterprises. Permitting or encouraging concentration of wealth and income is thus a necessary corollary of the policy now adopted by the government. The events and arguments that have convinced the government of the need for an ample profit margin in industrial prices will, it may be confidently expected, also lead to progressive relaxation of the burden of taxation on business profits, corporation incomes and the higher ranges of personal incomes.

The policy of the government regarding the operation and growth of industry has been dealt with at length because it necessarily shapes all other aspects of economic policy. The funds available to the government for schemes of social betterment and security will depend on the area of economic activity it exploits and the extent to which it taxes the rich. It appears that these funds will not be even so large in the near future as in the recent past and that they will be spent chiefly on spreading primary education and achieving prohibition. Funds so spent will produce no immediately visible results, as will also be true of any large development programmes undertaken with borrowed capital. Industrial policy will directly influence administration of agricultural prices, as has already been apparent from the working of control over prices of raw cotton. It will also affect social policy through planning relating to location of industry and the growth of cities. The present

government appears reluctant to undertake the licensing of industrial establishments proposed by the wartime government, and the further growth of large urban industrial areas through increased industrial activity in them or on their fringe is, if not actively encouraged, in no way discouraged.

The government policy in relation to industrial labour is clear cut, being based on ideas developed over a series of years by a wing of the Congress Party. Its basic concepts are a belief in compulsory arbitration of industrial disputes, in the efficacy of profit sharing, in the fixation of minimum wages, and in the possibility of an automatic adjustment of wages in changing conditions of prices and employment. A few provinces made a beginning with legislation in some of these respects more than a decade ago; during the last two years the concepts have been increasingly incorporated in all-India legislation and policy. There has been considerable progress in establishing conditions of employment and dismissal, and it may soon become difficult for labour or capital to resort, within the law, to strike or lock-out. Although the feasibility of automatic adjustment of wages or profit-sharing over the whole field of Indian industry has not yet been established, there is no reason why a sufficiently determined government should not be able to evolve and impose reasonable enough schemes in both of these respects.

The operational success of the programme as a whole cannot be said to be assured. It was not initially welcomed by the industrialists; but since they are now receiving a free hand in most other respects, the majority of them may soon fall in line with the government's programme for industrial labour. The response of the working classes has so far been unfavourable, except in certain sections which were long ago organised by those who have evolved the programme. This unfavourable reaction has led the official party to launch a movement to organise labour in unions sponsored by itself. While the success of this move has not been striking, it has at least broken the solidarity of the labour movement. The activities of the communists have contributed towards the same end. The strength of possible opposition to the government policy by industrial labour has thus been greatly reduced, but this is not to say that active or willing support, therefor, has been enlisted. When the era of high prices and abnormal profits comes to an end, the earnings of labour will tend to fall, and compulsory arbitration or profit-sharing is not likely to prove of much help in the complete absence of

a social security programme. Any further effort to placate industrial labour will only add to the burden on the consumer.

What are the likely effects of a policy which keeps the prices of manufactured goods high through the combined activities, under government protection, of industrial capital and labour? The professional and the higher official classes may not resent the process. The higher ranks of the professional classes in India depend, to an extent even larger than in most other countries, on the rich concentrated in a few big cities. One of the most striking reversals of promises contained in the older egalitarian programmes of the ruling party has related to the level of official salaries. The new government has made no attempt to correct the top-heavy social and administrative structure created by British rule; and the official classes in India have found, much to their surprise and relief, that the new regime intends to reduce neither their salaries nor their numbers. Their support of the new policies may, therefore, be presumed. The rest of the salariat, professional classes and non-industrial wage earners will, of course, suffer heavily, but these may not prove politically important.

At the time of the decontrol campaign of 1947 it had been urged that the interests of both industrial and agricultural producers would be served by the step. Agricultural producers, in many regions welcomed decontrol and apparently profited from it. Soon it appeared that the increase in prices in 1948 under decontrol did not tilt the balance any further than before in favour of the agriculturist, and in some regions an opposite effect was experienced. And wherever controls were resumed effectively, the setback experienced by the agriculturist was severe. The thesis sedulously propagated by some Indian industrialists, that all the country needs is more production and that the perpetual maintenance of ample profit margins is the only means of attaining this end, can deceive only the naive. The implied programme can be put into operation, for any length of time, only for a small sector of the economy. In such an overwhelmingly agricultural country as India an ample margin for the small-scale, under-capitalised agricultural producer cannot be obviously provided. During the inflationary period the interests of both agriculturist and industrial producers appeared to be served by rising prices; the aftermath will quickly bring home to the small agriculturist the real costs of the process, while the big industrialist, shielded by state policy, will escape lightly. Except for the somewhat spectacular

step of the buying out of landlords in certain provinces, the large majority of agriculturists are not directly impressed or benefited by any important aspect of government policy. In many areas they already complain of the disparity in the movements of prices of the things they have to buy, such as fertilisers, cloth, etc., and the produce they sell. The complaints will be neither widespread nor serious only so long as agricultural prices remain high. There are no signs, however, that government is preparing to support agricultural prices or that it will be able to implement such a policy if planned. The first touch of a recession is thus likely to disillusion the agriculturist in areas where he has not already been disillusioned.

To all this the economic historian may no doubt reply that this is a stage through which a capitalist society is apt to pass. A high concentration of wealth and income may lead to rapid industrialization through ventures of daring entrepreneurs, and the necessary concomitant of the process is delay in general betterment. Whether one accepts the arguments or not, it is difficult to believe that it will be left unchallenged. This is not to say that any large body of agriculturists, wage earners or the salariat in India is today fully conscious of the implications of the trend of events of the last two years, or that if it were so conscious it could or would organise itself with any immediate effect. At the same time it is equally true that there is in the country much vague, unformulated discontent concerned chiefly with economic conditions. Special pressures, internal or external, may well bring it to a head. The Indian economic outlook thus appears somewhat uncertain at present, and the new trends in economic policy may not endure unless the cause of the Indian industrialist gets considerable support from outside.

The Indian situation illustrates one aspect of the political and economic problems confronting the world. There is much truth in the statement that a transition to socialism in an immature society is difficult and creates problems of its own. At the same time the operation of private enterprise in such a society inevitably leads to glaring anomalies and gross inequalities which, in the present climate of world political opinion, may not be tolerated for long. It may be difficult to convince the mass of the people in such a society that the cause of private enterprise is also the cause of liberty and justice.

**NOTES ON THE GOVERNMENT OF INDIA'S
FIRST FIVE YEAR PLAN:***

The following are brief notes on the draft outlines of the first five year plan. They are intended to bring to notice certain important gaps and points of criticism. For a variety of reasons no attempt has been made to argue out the points elaborately.

In these notes the plan has been examined chiefly from three points of view. (1) The programme of investment that has been set out and the manner of its determination; (2) Measures proposed for attaining targets and production plans, their adequacy and efficiency; (3) The social directives in the Indian Constitution and the possible economic and social results of the plan.

I

The main investment outlays are concerned with agricultural production; and chief among these are the irrigation and power schemes. It is not clear how the list of irrigation and power schemes included in the plan was made up. There could, for example, be two important criteria used in locating expenditure on irrigation developments. Firstly, expenditure on irrigation works could be concentrated in regions where insecurity on account of scarce or uncertain rainfall is heavy; or expenditure could be concentrated in regions where additional production brought about because of investment in irrigation gave the largest returns. In practice, some consideration may be given to both these criteria.

An examination of the actual works finally included in the 5-year plan in relation to, for example Bombay State, shows, at least apparently, a disregard of both these criteria and can be explained in relation to no obvious tests on which the final decision could be supposed to have been

* Submitted to the Planning Commission in September 1951, published in *Economic Development and Cultural Change*, Chicago, March 1952.

based. The statement (*not reproduced here*) sets out the projects in what was the central division of the Bombay Province included in (1) the post-war plan of reconstruction in Bombay Province published by the Government of Bombay in 1944 (2) Post-war reconstruction in Bombay Province 5-year plan 1947 and (3) the proposals regarding the same area contained in the first five year plan. It should be noted that this area contains one of the most extensive tracts of Peninsular India liable to famine. Irrigation expenditure in this tract secures not only protection but also leads to increased production in a specially large measure per acre because of the low utilization capacity previous to irrigation. Both these special advantages have been recognised since the days of the Irrigation Commission (1900) and a large number of projects have been in an advanced state of preparation for a long time. The entire elimination, progressively since 1944, of irrigation works in this tract excepting for one work, on which nearly one-third of total expenditure has already been incurred is presumably based on reasons which have nothing to do with economic or social objectives. The plan, no doubt, contains figures about the number of areas proposed to be irrigated by each work and it may be supposed that these together with the cost estimates may have formed the basis for determining priorities. Such an assumption would, however, be unwarranted. It is well-known that even the technical and engineering aspects of many of the works included in the plan have not been prepared in full detail. A land utilization plan for the area under command after completion of irrigation was not undertaken even in the past, when the engineering plans were prepared in a more leisurely and thorough manner; and an assessment, of economic benefits, it is safe to assume, has been attempted for no work. The area figures, therefore, represent calculations with no real agricultural or economic significance.

An additional criterion for investment expenditure on development could be disparity in regional development. The poorer regions should obviously be allotted special priority in development investment if such investment can profitably be made in them. From this point of view again the allocations made in Bombay State are difficult to understand. The Bombay State allocations have been specially referred to because I have personal knowledge of comparative conditions within the state. Nothing is, however, said in the plan to indicate that in framing the plan of irrigation investment in other areas also any set of criteria or tests had

been adopted.

What is said regarding irrigation seems to apply equally to investments for generating electric power. The study of economic effects of irrigation may not be always considered essential as it is presumed that an increased and secure water supply is bound to benefit every tract (the proposition is, of course, not universally true). In case of electric power, however, a study of possibilities of economic use as related to cost is of the utmost importance. It is only if, for either agricultural or industrial purposes a considerable amount of electric power generated in a particular place can be utilised profitably in the neighbouring region that an investment for its generation is immediately justified. In the absence of such utilisation what will happen is either a waste of investment resources or an unprofitable diversion of electric power from the centre of production to the nearest large city centres. A plan of development of electric power which is not integrated with a plan of development of industries with special reference to their location is thus completely meaningless. At present, investment in electric power generation appears to be proposed merely because certain engineering possibilities exist. Obviously in this respect as in schemes of irrigation, a series of criteria and tests must be laid down for testing priorities of investment expenditure.

A necessary corollary of generating electric power in regions where there is no demand for it or where *pari passu* proper industrial development is not planned is that the power is diverted to distant centres of existing industrial concentration. This further intensifies regional disparities by diverting the developed resources of backward regions for the increased benefit of the already well advanced. Thus here as elsewhere in the plan it is assured that those who have, get more.

Another aspect of plans of irrigation and electric power development is the planning of the subsidiary and ancillary works that are necessary for the proper utilization of water and electricity. It has been the experience both in India and the U.S.A. that without the previous planning of such works an unnecessarily large time elapses between provision of water and electricity and its full use, and even when full utilization is reached it does not, when left to chance, necessarily take the most desirable directions. It does not appear that this aspect of the problem has been at all attended to in the schemes drawn up for the five-year plan.

We may next consider another main aspect of investment

expenditure, that of industrial investment. A plan for industrial investment may be framed in relation to a number of criteria. These criteria, it may be expected, will be explicitly stated in the plan for the first five years, of what is presumably a long term development process.

There is some discussion of priorities in planning in the sphere of industry, chiefly from the short period point of view, in the plan. From this discussion it would appear that the development of producer goods industries is related chiefly to the development plan of agriculture, irrigation and electricity. Curiously enough, generation of electricity itself is nowhere considered as having special significance only in relation to a plan of potential industrial development. Even with a recognition of the fact that conditions in India are favourable for the expansion of steel, cement and fertilizer industries no substantial provision for investment in these industries is made in the plan. Similarly though it is recognised that the development of other producer goods industries is useful from the point of view of establishing some sort of balance in the industrial structure no special provision for the expansion of these industries has been made. The same gap is evident in relation to pig iron though the report places more emphasis on it. As a matter of fact, the additional industrial investment visualised in the plan is very limited and the increase in production of even important consumer goods industries is to be achieved chiefly by utilization of fuller capacity.

In the entire field of large scale private industry the total new investment is expected to be of the order of Rs. 125 crores. This together with the requirements of the accumulated need for replacements and renovation is expected to require a total investment of about Rs. 250 crores. The figure of Rs. 250 crores is in addition to the Rs. 80 crores that are provided as investment on account of government in the field of large scale industry but is inclusive of an indefinite sum, of the order perhaps of 35 to 40 crores, which may be provided through semi-official agencies like the Industrial Finance Corporation or directly by government. It is thus clear that the five-year plan visualises only a very limited expansion of industrial equipment or employment and that further it does not plan this development in such a way as to lead to any progressive expansion of employment or an elaboration of the industrial structure in subsequent periods.

In relation especially to a country like India, it is obvious that importance should be attached to an increasingly complex structure of

economic society and the generation of a rapidly increasing pace of non-farm employment. The plan of industrial development should properly have been presented in the light of some such general considerations. The fact that it is not so presented makes it difficult to pass an informed judgment on it. In all countries at an early stage of development special emphasis is placed on the rapid growth of basic industries on which the later development of industrial structure depends. (This is emphasized by the almost equally urgent consideration of defence industries.) In countries in which the fundamental conditions are not favourable to the increase of basic and capital goods industries special efforts are made to force their growth. It is thus surprising that in spite of the favourable conditions for production of basic materials such as pig iron and steel no large planned provision is made for their expansion. Thus apart from the details of the plan of industrial development the relative weight attached, in the plan, to agricultural and industrial investments is itself difficult to appreciate.

The picture of the industrial employment plan becomes even more confused and less intelligible when one considers the section on small scale and cottage industries. The total expenditure by government on these industries provided in the 5-year plan is less than Rs. 16 crores. At the same time, however, these sectors are relied upon to provide the main avenues of additional employment of the future. The development of small scale and cottage industries is supposed to be capable not only of providing additional employment but also of building up local industries capable of expansion and of developing domestic markets. It is unfortunate that a sector on which so much is supposed to depend is treated most unsatisfactorily in the plan. It would appear from one of the recommendations contained in the plan that the conditions and problems of small scale industries are yet not fully understood and that a detailed survey in which evidently technical assistance from foreign experts may be required is yet to be undertaken. Whatever the results that such a survey may bring forth, attention should have been drawn to certain fairly obvious facts. The basic problem of economic development in a country like India has been described as that of under employment; and it is the lack of continued employment in agriculture together with its inadequate equipment that is supposed to be responsible for its very low productivity. It needs to be emphasized that the productive efficiency of the small scale and cottage industries is equally low, and that the low

product per worker in all cottage and most small industries is also due to inadequate equipment and under employment. The problem of small scale and cottage industry has to be consequently treated essentially in the same way as that of agriculture; only there are two circumstances which make the task of development of rural cottage and small scale industry even more difficult than that of agriculture. There are no possibilities such as that of irrigation works in agriculture, of the intensification of exploitation in the field of small scale and cottage industry. Secondly, the position of these industries is being continuously undermined, to an extent unknown in agriculture, by competition of products of large scale industry. The rehabilitation of these industries is thus a delicate problem which has at least three important aspects: (1) finding out ways of technical and economic reorganization which would make production in these industries much more efficient than at present without altering its social character. (2) investment in capital and technical training required to bring about this reorganization and (3) guaranteeing, for a given period, a sheltered market for the product of these industries so as to make the reorganization possible and durable for a minimum period. Without these three steps a proper rehabilitation of small scale and cottage industries cannot be contemplated. Even when all these steps are taken employment in these industries is not likely to increase. All that could be done would be to stabilise the employment by stages at progressively lower levels but attain, at the same time, higher productive efficiency.¹

Not only is additional employment in small scale and cottage industry difficult to visualise if their productive efficiency increases but also all the three steps indicated above require action and investment which are not visualised in the plan. With the measure of expenditure given in the plan and the steps contemplated in it, an increase neither in employment nor in the level of earnings in these sectors of industry seem to be possible.

II

We may now turn to the production targets set up in the plan and the manner in which they are expected to be attained. It is not our

1. A programme for the creation of small scale industries which are ancillary or subsidiary to large scale machine industries is entirely another matter; but such a programme would be possible only with a properly planned development of large scale industry.

intention to examine whether the estimates of production to be attained are related realistically to the investment programme. Assuming that they are so related we would discuss the means by which it is expected that they would be attained. It is pleasant to note one feature of the draft outline plan which marks a definite advance on official thinking so far. The plan clearly states that for the fulfilment of the objective defined in the plan it is necessary to have a price policy that secures the appropriate allocation of resources and that a structure of controlled prices is an important adjunct of the plan. However, the difficulties of working only with a price plan do not seem to have been adequately realised. It should be obvious that a price policy which is related to certain overall objectives may not fully subserve the detailed objectives of the plan. For example, the maintenance of a given parity between sectional prices and the larger objective of holding and in due course reducing the general price level may not at times be mutually compatible. Moreover, the price policy has to be determined and price relatives fixed for the country as a whole. These relatives may not be fully appropriate for given allocations of, say, crops in each agricultural region. The relative margins and differentials required for diversion of lands between cereals and oil seeds will not be the same in all regions and yet the general price relations will have to be fixed on the basis of certain all-India estimates or averages. In the circumstances, it is clear that the targets laid down in the plan for specific crops cannot be attained until these are broken down for regions and smaller area units and specific supplementary provisions made for their attainment.

The only means of planning agricultural production contemplated in the plan is that of village production councils. The village production council is obviously not a suitable agency for overall decisions like general regional crop plans or targets of production. Unless crop plans for comparatively large homogeneous areas are worked out in the broad and legislative or other regulatory devices framed for directing cultivation or laying down lower and upper levels of particular crop allocations there is no guarantee that the targets in the plan will be attained. With an area crop-plan backed by regulatory powers and devices, village production councils may prove useful; but without it the energies of these councils are not likely to be specifically directed, and their performance is likely to vary enormously with local circumstances.

Apart from the direct attainment of crop production targets,

attention may be paid to the proposals of the commission for the reorganization of agriculture. The commission refers to certain measures of land reform like the abolition of Zamindari and the protection of tenants. These questions are of old standing and nothing departing to any marked extent from the trend in previous policies is suggested. The really important aspect of the Plan is that dealing with the reorganization of agricultural production and the productive unit. The three main proposals of the Commission in this behalf are the establishment of village production councils, the establishment of registered farms and the promotion of co-operative farming societies. Village production councils will be chiefly advisory and consultative bodies and will have little direct productive work. The concept of registered farms follows from the case argued out by the commission against any ceiling on further land acquisition. The Commission argues against the break-up of specially large holdings existing today and the limitation of the possibility of increasing the size of such holdings. It proposes no bar to an increasing concentration of the ownership and operation of agricultural land; instead of preventing increasing capitalization of agriculture the commission proposes to create a special class of all large-sized farms and to treat them in a special way. In relation to the value of production the proposal will depend on the control over production plans and performance of registered farms which the State is able to obtain and the efficacy with which these powers of control and direction are capable of being exercised. The social aspect of registered farms will be considered later.

The number of registered farms and even the total agricultural area controlled by them will at least for a long time, remain small. The main reorganization proposal in relation to agricultural production is, therefore, the proposal for the promotion of the co-operative farming societies. It is no exaggeration to say, that there are today in most states of India, no co-operative farming societies proper in existence and that the formation of co-operative farming societies has been found to be one of the most difficult problems in co-operative organization. The pooling together of existing holdings of land and forming a joint co-operative productive organization has been realised everywhere to be the most difficult and logically the last step to be taken in agricultural reorganization. There are a number of steps which would have to be taken to increase the income of the agriculturist and to influence his productive methods

and efficiency before going on to complete co-operative organization of production. The most serious handicaps of the agriculturists and the largest sources of his loss of material income are the marketing and processing activities. Even in times of boom the largest advantage is obtained by the intermediate merchandising and processing agencies. This can be seen by reference to the rapid increase of wealth of these agencies in various tracts during the last 10 years. Also these agencies are chiefly instrumental through a variety of practices in making difficult the progress of co-operation and the operation of State measures of direction and control in all sectors of rural life. It is surprising, therefore, that the Plan nowhere makes any reference to the important part played by marketing and processing activities in agriculture and the possibilities of reorganization through their being nationalised or being brought into the co-operative fold. A programme of agricultural reorganization must begin by concentrating attention on the reorganization of marketing and processing activities. A programme by which all marketing of agricultural products comes within a period in co-operative hands is a *sine qua non* of agricultural advance. There is also a strong case for nationalization of agricultural processing activities. In most instances there is redundant capacity in processing industries and in a large number of cases the processing agencies can and do act in agreement with each other regarding charges etc. The location of processing activity in relation to marketing activity is also important in agricultural organization. Processing activity is, in many instances, closely connected with problems of agricultural procurement and maintenance of agricultural prices. These activities should, therefore, be nationalized as early as possible if a planned progress of agriculture is visualized. There is a much stronger case for nationalization of these than there was for the nationalization of road transport. When processing is nationalized and marketing comes into co-operative hands it would be found easy to influence productive activities of individual agricultural producers and gradually conditions may be created in which a further step forward i.e. in the direction of co-operative farming may be taken. To talk in terms of co-operative farming without thinking of the intermediate steps appears highly unrealistic.

It may be noted that in relation to the reorganization of agriculture no reference is made by the commission to the problem of unemployment resulting necessarily from any scheme of reorganization of

production units. That reorganization of agriculture in more efficient units is impossible without making redundant a significant proportion of people employed on land today may be taken axiomatic for most regions of India. It is therefore surprising that no reference is made to this central problem by the planning commission.

We may next turn to proposals relating to industrial production. Almost all large scale industries are left in the private sector. The programme of suggested expansion in this sector is said to be based on previous discussions with private industrialists. Presumably it reflects the judgments or expectations of leaders of industry in that sector. It is, therefore, not a programme drawn up by the planning commission in relation to certain overall objectives and trends determined by the Commission but only a summary of what the private industrialist think may well happen during the next five years. Perhaps this curious species of planning is the only one possible in the Indian type of mixed economy. Even in these circumstances, the important question as to how the expansion programme will, in effect, fructify has still to be faced.

There are two main aspects to the industrial development programme of the planning commission. There is, in the first instance, increase to be brought about through fuller utilization of existing capacity. In most existing industries increased production is estimated to come about much more greatly through better use of present capacity than through increase in installed capacity. It is obvious that this expectation could be fulfilled only if extensive measures in such directions as the rationalization and standardization of production could be enforced by government on industry. There is no discussion in the report of the planning commission of action required for the utilization of the private capacity, and regarding powers of government there is only a reference to the Industrial Development and Control bill. The Industrial Development and Control bill, as it has emerged from the Select Committee, is an obviously inadequate instrument for the enforcement of a plan. The report of the Planning Commission contains the following statement of objectives. "The system of private enterprises will have to be very different from that which now exists; industry will have to accept not only the objectives of social and economic policy but also its own obligations towards the worker, the investor and the consumer. Private industry will have to fit into the scheme of national planning equally with other sectors of national economy and will have to be so conducted

as to satisfy the public at large that it meets social needs adequately and avoids misdirection of national resources as well as exploitation or corruption." The Industrial Development and Control bill makes no provision for the overall direction and regulation of the conduct of industry such as is required by this objective of the plan. According to the proposals of the Select Committee government can undertake investigation in specific industries or undertakings only when they show a fall in production or deteriorating quality. Such investigation will be made by a Central Industrial Board and the steps that government is able to take will depend upon and be subsequent to a report of this Board. This dilatory procedure of limited application can prove useful only in cases of flagrant malpractices and mismanagement in individual units and cannot serve where a whole industry has to be reorganized. The experience of previous attempts at planned production in the cotton industry or management through consultation with industrialists of the affairs of the sugar industry cannot, in this context, be lightly disregarded. A Planning Commission which assumes that without adequate powers government will in future obtain from industry a very different response from that in the immediate past cannot be considered to be very serious about its proposals.

Where proposals embodied in the report fall short of the essential requirements of a programme of attaining full capacity in production, it is obvious that in other respects there is even less guarantee of fulfilment of the plan. Essentially, government powers even after passing of the Industrial Development and Control Bill will be negative. They may be able to prevent some misdirection of resources or some acts of gross mismanagement; there is nothing in them to support positive steps towards more rational or efficient practice and still less to enforce a detailed programme of private investment. The expansion programme in the industrial sector is thus no more than a hope or a wish. This may be fulfilled if conditions are favourable in terms of the private entrepreneur and investor; on other hand, there is at least an equal chance of its miscarrying.

The unrealism of the whole production plan becomes even more marked when the proposals for production planning in relation to small scale and cottage industries is taken into account. The whole plan regarding the development of small scale and cottage industries is dependent on ability of government not only to direct the production of

small scale and cottage industries but also to delimit the markets of large scale and small scale and cottage industries respectively. Such delimitation involves control on the production pattern and quantitative performance of domestic and large scale industry and of imports in specific direction. There is nothing in the report of the planning commission to show that the Union Government or the State Governments will be given powers in this behalf or indeed to show that the Planning Commission considers any such powers essential for the fulfilment of its own plan. Reference may be made in this connection to the minute of dissent of Mr. Bishwanath Das to the report of the Select Committee on the Industrial Development and Control Bill. Mr. Das points out how the Bill in its revised form may have the effect of actually limiting powers in certain directions of state governments.

No reference is made in the report of the Planning Commission to policy relating to industrial prices. In so far as the Planning Commission depends on an integrated price policy as the chief instrument of directing production in agriculture and presumably in industry also, it would have been expected that the Commission would discuss some of the more difficult problems of devising a price policy which could be effective for this purpose. The difficulties in relation to determining relatives among even the more important agricultural commodities have been already mentioned. The problem in relation to industrial prices is even more difficult. Two major aspects of it may be here indicated. Firstly, there is the question of the relative price level of manufactured goods. A policy which is anti-inflationary would require that the level of prices of manufactured goods should be kept as low as possible and no increases be allowed except those which are demonstrably necessary, all increases in costs being, as far as possible, absorbed within the existing margins. Such was the policy followed during war in most countries whose economic affairs were well managed; and this is again being enforced in all countries where concern is being felt over possibilities of inflation following upon rearmament expenditure. Since 1947 the Indian government has deliberately followed an opposite policy. This has been that of granting an increase in prices wherever a plausible case could be made for such increase. The truth of this assertion can be checked by the level of profits made by and the prices of industrial shares in all industries, the prices of whose products have been controlled. It may be argued that such a policy is dictated from considerations of giving adequate incentive

to industry. If so, the two aims of policy will ever be in conflict; a disinflationary policy not being consistent with this view of adequate incentives. The second important aspect of the control of industrial prices is that of the relation of detailed production performance to price control. It is presumed that when the Planning Commission desires, for example, an increase in production of certain types of consumer goods this is for increasing the consumption of specific classes and is, therefore, related to particular types of products at particular prices. The example of the working of price control in cotton industry during war has demonstrated the virtual impossibility of working this arrangement. In industrial production there is even much less guarantee than in agricultural production that specific targets in particular types of production would be attained through price control alone. This is only another instance of the Planning Commission not having thought out clearly even what it wants to do, much less how to attain it.

III

A third important point of view relates to the social effects of the Plan. The Planning Commission claims to have been guided by the directives set out in the constitution of the Indian Republic. It is necessary to see how far this claim can be sustained. Comment may be made on a preliminary defence that is likely to be offered. It may be argued that the first five year plan is in the main a production plan and that the planners will turn to specific social objectives after production has been significantly raised during the period of the first plan. The validity of such distinction between a production and a distribution plan must be challenged. A production plan is necessarily based on a specific productive organization of society. A plan of development while increasing productive activity must necessarily strengthen the important economic and social elements in the existing production structure. If, therefore, there exist strong vested interests or dominant or ruling groups in the production structure, a production plan which pays no attention to social or distributive effects will inevitably increase the economic strength and social and political power of the vested interests and the governing elements. The operation of such a production plan would, make it not less but more difficult to frame and carry out a plan for attaining social objectives at the end of the period of the first plan. It is, therefore, essential that the social directives of the constitution are paid

attention to during the period of each plan. This is apart from the consideration that no plan is likely to arouse the enthusiasm of the majority of the population, which all planners desire, unless it is expected and demonstrated to make an immediate beginning towards attaining of a more just and equal order in society.

The social effects of a plan of development will be made clear by considering the manner in which the increase of wealth and income brought about by the plan is distributed among various classes and various interests in society.

The Planning Commission remarks in more than one place in the report that the recent increase in agricultural prices has led to a diffusion of income over a wider sector in society. It is not clear what is meant by this remark or on what data it is based. If all that is meant is that during the last decade the relation of agricultural prices to industrial prices has become different from the relation that obtained during the thirties i.e., during the period of the world depression, no objection may be raised against it. If, however, it is meant to convey the impression that the distribution of incomes in society has now been stabilised on a more equalitarian basis than some assumed norm of the interwar period, the statement obviously goes beyond any ascertained data that are known to me. Again the phrase "the diffusion of incomes over a wider sector" is capable of being misunderstood and is likely to mislead. As between two sectors, say, agricultural and industrial or rural and urban, the extreme position reached during the depression may have been corrected somewhat. This does not, however, mean that the results of the improvement of the position of the agricultural sector are themselves widely distributed either in terms of regions or of classes within a region. A readjustment of the comparative position between two sectors cannot necessarily be considered to lead to a wider diffusion of wealth and income over society as a whole. The Planning Commission has not made even a reference to the present pattern of distribution within the industrial or urban sector. The only reference to the phenomenon in the agricultural sector is the one mentioned above.

Some enquiries have been made in recent years regarding the effect of the rise in prices of agricultural produce on, say, the indebtedness of farmers. Most of these indicate that the real benefit of the rise has been reaped by farmers who had a significant surplus to sell and especially those who grew important commercial crops. This would indicate that

substantially higher incomes are received by agriculturists only in some regions and that even in those regions the majority of the farmers do not benefit greatly. The ability to profit from the change in price relations is dependent obviously on having not only a large enough scale of operations but also having the resources to exploit one's opportunities. The inability of the Commission to deal with the fundamental problem of the uneconomic holding has been commented on above. The other aspect refers chiefly to a policy relating to agricultural credit. The Planning Commission contents itself with a vague statement of abstract policy on this question. The large problem of financing rehabilitation of depressed areas and classes it entirely ignores. Even for the financing of the smaller body of creditworthy farmers it suggests nothing concrete. The question is not primarily one of organization. Organizational experiments are already being made in some states. However if they succeed the problem of providing a very large volume of finance at a low rate of interest will have to be faced almost immediately. The resources of the co-operative movement cannot possibly expand rapidly enough for the purpose and the Reserve Bank can help chiefly in the field of crop finance. An integrated system of agricultural credit will require drawing upon the resources of all existing financial agencies and institutions. It is symptomatic of the present trend in Indian economic policy that thought should be now concentrated on subsidising private commercial banks and the Imperial Bank of India for extending activities in rural areas rather than on how a co-operative-cum-state system could draw upon the resources in private hands to finance agricultural industry in a systematic manner all over the country. The Imperial Bank has been helped in the past to increase its activities and currently holds large government funds. Nationalization of the Imperial Bank is obviously an important and necessary step in building a countrywide system for the finance of agricultural production and marketing.

Indian rural society presents today a picture of a mass of uneconomic and poor production units that are ordinarily and without help unable to reap much benefit from such a phenomenon as the rise in prices. The benefit of an investment or development programme in such a society, will equally be unavailable to the large mass of poor producers, unless special efforts are made in that direction.

Not much study has been made, so far, of the evolution of economic and social patterns in areas which have, for example, been brought under

command of major irrigation schemes. It would, however, appear that in such areas the benefits of irrigation tend to be concentrated among a smaller and smaller number of farmers unless special measures are taken to counteract this tendency. The Plan refers approvingly to the Bombay irrigation cess. The Bombay irrigation cess, however, is a purely fiscal device having been evolved with no relation to either the distributive or developmental aspects. It is to be compared to such taxation as betterment taxes in town development schemes. In a new irrigation scheme there is in the first instance, the danger of land speculation which means speculative buying up in advance and necessarily ultimate concentration of wealth. The irrigation cess can have no effect on this except that of making a small owner even less able than otherwise to withstand a tempting offer. The other danger in a scheme of irrigation development is that unless such a scheme is accompanied by subsidiary and ancillary works and by schemes of training the existing body of small producers in irrigated farming and of financing the increased cost of such farming the bulk of such producers may be ousted by aggressive elements from outside; and this will have the effect of creating both the evils of concentration of wealth and also of special types of social conflicts. That an unplanned and unregulated development must ultimately lead to concentration and to conflicts has been clearly demonstrated in the areas under command of the major canals in the Bombay Deccan. One of the safeguards that the British Government adopted in this area for preventing the more extreme forms of concentration was to make water rights periodically revisable. The obvious intention was that small men who in the early stages of irrigation development were unable to take advantage of the water facilities because either of ignorance or lack of financial resources should later be enabled to do so. Recently, however, the Bombay Government in the irrigation department has become socially even more retrograde than the British. It has now become clear that the Government intends to treat present water rights as permanent vested rights, and it is learnt that on some of the major canals where revision is due in 1952 government has refused even to entertain applications of old small holders of land who had not, in the past, acquired water rights. This is perhaps justified on the plea that the larger the farms the more is the production. The plea is not supported by any concrete data such as that the average out turn of the sugarcane farmer with two acres under sugarcane is always lower than average out turn of a farmer with twenty

times that acreage. However, even if, under existing conditions, this were so the acceptance of the plea should lead to a rapid elimination of the small farmer in favour of the larger. It amounts indeed to saying that as the larger of the existing producers are the most efficient, all investment and development expenditure must further add to the resources, strength and sphere of operations of these producers.

What is necessary, however, to emphasise is that in all under-developed economies where lack of resources and ignorance are so widespread as among the majority of producers in Indian agriculture, a development plan is bound to result in increasing inequality of wealth and distribution even without a bias in favour of the rich such as is reported to have been avowed publicly by the Bombay Irrigation Minister. The experience of the *laissez faire* regime of the British period confirms this conclusion which one would expect even on a *priori* grounds. It was necessary to draw attention to this issue with some emphasis as there is nothing in the agricultural plan of the commission which could counteract this strong inherent tendency.

The Registered Farmers would presumably be all large capitalist farmers who would get government assistance at the technical level and would obtain special supplies of materials. Obviously, therefore their productive efficiency would be specially increased by government policy and government expenditure. How the increased income of these producers which would presumably follow upon their increased productive efficiency would be distributed is not made clear by the plan; except, perhaps that they would be expected to sell the bulk of their produce to government at, presumably, normal prices, nothing is suggested. It would be noted that public investment in the five year plan is largely concentrated in irrigation projects and that the direct effect of these irrigation projects will be confined to very limited areas. In these limited areas the major benefits will be derived by a comparatively small number of specially advantaged people. As pointed out above, the plan makes no reference to marketing and processing activities, which are to a very large extent in the hands of private persons, who are the other major exploiters in the rural sector. The plan leaves this aspect of the matter entirely outside its consideration. In the agricultural sector, therefore, it can be said entirely to ignore social objectives and to be content with the continued operation of present trends which make for increased inequalities of distribution.

It has been indicated above that the use of electric power generated by the multi-purpose etc. schemes has not been planned. To the extent that the power is used privately for irrigation and other agricultural purposes it will benefit the bigger farmers who alone will be in a position to afford it. In the field of industry increased electric power may serve social objectives only if it is deliberately used for dispersal of location of industry or for encouraging smaller units. This could be achieved if, not only is there a previous detailed plan of industrial development and location related to schemes of generation of power but also if the specific measures indicated above for demarcation of the field of small industry are taken.

In the matter of location nothing whatever is said in the Plan. It is presumed that some action in accordance with the plans prepared by Industrial Panels may be taken. But it is clear that the Planning Commission has paid no attention to the serious social and economic problems created by such overgrown centres of industrial location as Bombay and Calcutta. State governments have taken no action in these matters so far and it would, in fact, appear as if the Bombay Government's policy is to encourage a further growth of industrial activity, in the vicinity of Bombay and even to divert water resources which could be employed for maintaining a green belt of vegetable and fruit farming round it to industrial uses. The high social costs of this policy are reflected in the housing situation in these concentrations of population; and the only large new expenditure indicated in the plan on social objectives is that on industrial housing in the large cities. Estimation of the dimensions of the problem of industrial housing today makes clear how the expenditure of even large sums could not create much impression on the existing situation and that the only radical remedy is not only to stop further growth of existing concentrations but also to see that there is an immediate diversion of population away from the largest centres, to localities in which conditions of life would be healthier and housing facilities could be provided much more cheaply.

The increased generation of electricity in the absence of a deliberate plan of dispersal is likely to increase concentration of location because the new power will be most readily absorbed in existing centres of industry. Without state help and regular direction regarding location i.e. without a detailed plan of industrial location which is capable of being properly implemented generation of further power will help

only concentration. It is notorious that in the absence of regulation or direction private enterprise naturally prefers location in the biggest centres, and that the private entrepreneur class, as a whole, never undertakes deliberate development of backward areas, as from the point of view of returns to the private investor these are ordinarily not attractive. The absence of a plan of industrial location and of the development of backward areas is another important gap in the five year plan.

By neglecting to pay any attention to this aspect of the problem the plan helps the continuance of present trends of concentration of economic power and the continued increase in the riches of those classes and regions who are already comparatively the richer. This trend is made clearest in the attitude of the Planning Commission towards private industry. All large scale industry is to continue to remain in the private sector. At the same time, all existing plans of state aid by protection, allocations, subsidies, etc. for the growth of private industry will continue. In addition the plan makes provision for the supply, by the state directly or through semi-official corporations, of large funds to enable the largest industries to expand production and improve efficiency. It is one of the curiosities of the results of recent official policy that whereas the state, since 1947, has been giving continuous relief to industry and to the income and supertax payers, presumably, to aid further investment in industry, the biggest and the most central schemes of expansion of industry have still to fall back on the state for investment capital. It would also be interesting in this connection, to calculate the extent of the tax-relief the state has given in recent years and the results that this has had in terms of additional investment. The calculations are necessarily complicated and cannot be made without information which could be available only from official sources. Proceeding, however, merely on the estimates of loss due to concessions that succeeding Finance Members have made in their budget speeches each year and allowing fully for increased taxation during the current year, it would appear that the net relief in concessions would amount today to at least Rs. 20 crores per annum and may have been near Rs. 30 crores last year. This sum may be set against the Rs. 15 crores per annum which the capital market is reported to have raised in recent years and the Rs. 125 crores which is estimated as the total cost of the programme of capital expansion in the 5 year plan. It would be not far wrong to say that if the state had kept up its taxation at the level of the 1947-48 budget it could

have built up a fund for industrial investment roughly of the same order as the investment that is expected to take place in the private sector of industry in the 5 year plan of expansion. And in this case, of course, the direction of the investment could have been fully controlled and its fruits accrued to public revenues. The insistence on the retention of the whole sphere of large scale industry in the private sector is difficult to understand in view of these facts regarding investment finance available for large scale industry from that sector.

The continuance of the private sector is apparently not justified by performance. More importantly it results in continuously increasing unequal distribution. A glance at the industrial growth of India during the last 30 years makes clear how almost each industry has grown through support, direct and indirect, given by general revenues or by laying burdens on the general consumer. In terms of distribution of income and wealth in society the process of industrial advance, which was largely the result of state policy and social sacrifice, has meant an increasing concentration of wealth and income in the hands of restricted groups, and a limited number of individuals. This policy is to be, evidently, pursued through the 5 year plan. When Government lend money for industrial expansion to a private concern or help to build up or reform particular units by special technical assistance or other aids it is, in fact, increasing wealth in private hands through expenditures and costs which are borne by the public at large. There appears no justification for this procedure. It is indeed doubly inequitable; it not only increases artificially the present income earning capacity of particular individuals or classes at the cost of the general public but also later when the possibility of acquiring any of these concerns by the State arises, it would have increased, by present policy, the capital compensation that the general public which has helped to build up the concerns or units will be called upon to pay. Whatever might have been the justification during the British period for supporting such policies as tariff protection without any safeguards for public interest present and future, it does not hold any longer. It is clear that either the field of industry has to be increasingly nationalised or, at least, to the extent that in any sphere industrial units continue to receive assistance directly or indirectly this must be accompanied by suitable conditions both as regards their present incomes and future compensations.

The spheres in the Indian economy today in which large incomes

and opportunities for considerable capital formation arise are strictly limited. These are the fields of large scale industry, finance and trade. It is in these fields specifically that government postulates the necessity of private operation. Obviously, therefore, all talk of social objectives in the plan is futile.

There is some reference in the plan to the possibility of state trading in certain sectors; but the reference is vague and the performance of government, so far, in such clear cases as oil seeds and jute gives no hope that any radical action in this regard will be taken. There is obviously a clear case in relation to important export industries for assumption of an export monopoly by government. This is supported by action taken in many undeveloped economies. It is also the only possible method of enforcing a proper price policy in relation to commodities whose prices on the international market are liable to fluctuate widely. However, though this view has been pressed on government by various Boards and Committees since 1947 it has found no favour and the 5 year plan, though making vague references to possible state trading, formulates no concrete proposal in any particular respect.

To sum up, existing distribution of wealth in our economy is very uneven and a small number of people in each sector are placed in strategic positions; it is these that stand to benefit most from any large public investments leading to economic development. Large public investments, in circumstances like ours, lead to all sorts of unearned increments; these accrue to a few and whatever the increase in national product that is brought about by the investment it is distributed in an even less just manner than the distribution before. This tendency could be counteracted only if special precautions are taken in the plan of public investment itself. These precautions could be (1) limiting by legal action existing rights of private property (refer above, for a discussion of this in connection with agricultural development); (2) providing in the investment plan itself for dispersal of investment or of effects of investment or (3) fiscal policy designed to redistribute increased incomes. (1) is too radical to be considered by this Government and (2) has not been provided for in the plan. (3) Fiscal policy for social redistribution would have two aspects: (1) taxation and (2) expenditure in relation to tax income. The plan makes clear that no burdens heavier than the existing one are to be laid on the rich. The only redistribution measure specifically included in the plan is the suggestion for the im-

position of death duties. This is a hardy perennial and whenever it is implemented it would require a period of decades before its distributive aspect really became prominent or effective. From the fiscal point of view there is thus no corrective to the inherent inequitable tendency of the plan indicated above. There is nothing also to indicate, on the expenditure side, that the plan may lead to a correction of social inequality by any measures of state regulation or expenditure. The plan contains a section on what are called social services; almost the entire expenditure under these is merely the summation of current expenditures already undertaken or planned by state and central governments on such services as education and health. Even in relation to these there is no indication of a new policy or a special redistribution of effects of expenditure. None of these expenditures are, for example, of the type that may be termed transfers, i.e. either through measures of social security or through subsidising of particular activity or product, making for an indirect increase in the income of the poor. A possible exception is the expenditure on industrial housing. I have already indicated, however, that this expenditure is of doubtful social use. As a matter of fact, it is possible to argue that such expenditure, by making possible the continuance of location of industry in congested areas, which only benefits factories owned by industrialists in these locations, is in the long run actually inequitable.

In the other direction, it may be pointed out that the whole fiscal policy underlying the plan is one that makes for increased inflationary pressure. The policy of controls and state powers outlined in the plan is not such as to hold these pressures effectively in check. Therefore, to the other trends of the plan a continuous inflationary movement may add further inequality on the distributive side. A reference may be made here also to the absence of a foreign trade plan. It has been suggested that that plan is yet in the making. It is important to note, however, on the distributive side that in England the increased standard of living of the poor and decreased standard of the rich was brought about largely through controls of exports and imports. No such policy seems to be contemplated in the five year plan, so that the standards of consumption of our rich will not even have the ceilings that are current for the rich in England.

It may finally be permissible to question whether the "Plan" could be at all properly called a plan. In the main, it is no more than a com-

pilation of existing and expected plans of public investment, chiefly in irrigation and transport, by central and state governments put together on the basis of no clear criteria; in the field of industry the "plan" presents just a resume of discussions with private industrialists; in other spheres it mostly indicates existing expenditure, objectives and levels on the part of state and central governments. The production figures contained in it are not the results of any detailed working out by regions or sections but are mere average calculations of the sort made familiar by the Grow More Food campaign. Nothing is suggested in the plan to see that production targets will be fulfilled either in the sphere of agriculture or large scale industry and in relation to trade and small scale industry it contains no more than vague generalizations. The plan effectively ignores all problems of social policy and does not even elaborate or deal adequately with problems of price policy which is supposed to be its main operative instrument. Thus in all important respects, in coverage, in concreteness and in degree of integration it falls far short of what may properly be expected of a plan of economic development.

SOME REQUIREMENTS FOR TECHNICAL PROGRESS IN ASIA*

Although general agreement exists on the pressing need of under-developed countries for improved production techniques,¹ inadequate attention has been accorded the difficulties standing in the way of their adoption. It may be useful, therefore, to consider certain aspects of the problem in sufficient detail to permit definition of these difficulties. The following remarks are confined almost entirely to the agricultural scene, since in modern industry and transport, in the professions and in respect of the urban population in general, familiarity with aspects of modern technology may be taken for granted, and the road to further advance is therefore comparatively easy in these sectors.

More resistance is encountered in connection with the adoption of new ideas in handicraft and artisan industry, where there is usually a twofold problem—how to adopt new appliances, techniques and methods of production, and how suitably to change the product to meet altered market conditions. To cope with the latter problem, it may be necessary to create entirely new products and, therefore, to learn new skills, such as those involved in a shift from ordinary rope making to the manufacture of products like sandals, handbags, etc. out of the fibre, or, alternatively, to effect radical changes in patterns, design, etc. In most under-developed countries, handicraft and artisan industry has been subjected to continuous pressure for many decades. Ample case data are therefore available for studying circumstances in which the artisans either learned new methods and adapted themselves, in time, to the new situation or failed to do so and went under.

One instance may be cited. At the end of the nineteenth century the gold- and silver-thread industry in India was still important in many cities situated in different regions. By 1930 the industry in most of these

* *Pacific Affairs*, Vol. XXIV, No. 2, June 1951.

1. See, for example, the discussion in Joseph E. Stepanek and Charles H. Prien, "The Role of Rural Industries in Under-Developed Areas", *Pacific Affairs*, March 1960, pp. 65-76.

cities had either almost died out or was in a very bad way; only in Surat, where it had been transformed, was it vigorous. In most other cities the artisans, though highly skilled in their particular jobs, were illiterate, poor and completely dependent on the financier, who was usually some sort of dealer in cloth. In Surat, the percentage of literacy among artisans was high, they were relatively independent and prosperous, and, because of the higher degree of specialisation, the trading and financing groups connected with the industry were more directly interested in it than was the case elsewhere. Moreover, the Government of Bombay had been persuaded to send a local person with some knowledge both of technical problems and of the conditions of trade and industry to France so that he might study technical and market conditions there. He had been useful in drawing up a programme of improvements in methods and products suited to local conditions. Finally, thanks largely to the influence of local elements, the electric supply company in Surat had adopted a liberal rate policy for power used by artisans. The Surat case typifies fully the salient requirements of technical progress in artisan industry.

Since the problems involved in progress in agricultural technology cannot be so easily illustrated by single instances, it is necessary to consider them in certain groups. There are, firstly, the simpler advances and improvements which do not require change in other aspects of peasant life or organisation. Such, for example, is the adoption of improved seeds, new fertilisers, wider rows in planting, strip plowing, etc. In the spread of these there are three chief requirements. (1) The improvement suggested must be properly suited to the circumstances of the particular community. Thus, seeds and fertilisers have to be tested under a variety of conditions before being recommended as definite improvements; a new plow has to be within the draft power of the local breed of draft animals; and so forth. (2) The peasant must be persuaded that the suggested improvement is in fact an improvement. The most convincing demonstration can usually be provided through adoption of the improvement by one of the wealthier and more progressive local agriculturalists. (3) The improvement must be within the means of the peasant. A peasantry that habitually borrows for its consumption needs in the last months of the agricultural year is incapable of adopting any improvements. Even where the peasantry is not so poor, finance for the larger needs of investment or for working capital flowing

out of improved technique must be available on reasonable terms.

Other technical improvements make larger demands on the adaptability of the agriculturalist. Take, for example, the preparation of compost. The peasant has certain settled habits of disposal of waste and established procedures regarding them. These may have to be disturbed. He may be required to dig pits at a distance from his house or even from the village site and to carry refuse thither; for successful operations, he will have to be regular in a number of activities connected with this work and may have to change his usual routine. The resistance in such cases may be found to be considerable. To overcome it, demonstration of the superiority of the new technique must be especially convincing, and action on matters like these is likely to be taken not by single individuals but by groups, such as the village as a whole.

These remarks apply also to other cases of change in behaviour pattern, such as improvements in diet, use of latrines, etc. Almost every improvement depends on economic circumstances, but in matters of general behaviour patterns the importance of educating whole groups is also great. The influence of what may be termed "fashion" is considerable in this field and the force may act either way. In many parts of India today, for example, injections are believed to be a panacea, and, even among the poor, whoever can afford modern treatment insists on being injected. This popular belief has become the basis of what is almost a "racket".

Many improvements in technique or organisation may encounter opposition which cannot be dealt with as arising out of settled behaviour or routine. In many parts of India, for example, the peasant has real difficulties in agreeing to consolidate his cultivated holding in one plot. In ordinary Deccan villages there are at least three important elements in the composition of a holding. These are usually a small irrigated part, a larger portion with comparatively deep and retentive soils, and an extensive area of poor, hilly land. The fact that all three elements are important for a balanced agriculture places a limit on how far consolidation can go. Again, in the treeless Deccan plateau, peasants argue against planting trees on field borders because such trees afford resting places for birds and make crop watching difficult at harvest time. Finally, where there is general agreement that it is desirable for peasants to stay on their farms, especially when their fields are irrigated, this practice cannot become general unless they feel secure in their isolated dwell-

ings, as is not the case in all parts of India today.

Going deeper than mere established routine may be beliefs or prejudices with a quasi-religious background, e.g., the sentiment against slaughter of useless cattle in India. Such prejudices may be difficult to deal with by direct methods. Related to them are other obstacles, such as the objection to castration of bullocks, an extremely important measure in any programme for the improvement of cattle breeds. Circumstances require that, to be useful, an improvement must be universally enforced, and since it is too much to expect voluntary universal agreement on such points within a short time, the only practical procedure lies in a legislative enactment introduced after a preliminary propaganda campaign. That such legislation was passed and partially enforced in some states in India during the 1930s shows the possibilities of action even in a field touched by quasi-religious prejudice.

Still greater effort is involved when a change in what may be called social mores is required. An instance is the reduction of expenditure on social events or religious ceremonies. If this were achieved on a large scale, a substantial contribution to capital formation might be made in many rural areas. It is obvious that such an advance depends entirely on educative effort in the widest sense of the term. There have been isolated cases of success in this type of effort in India. For example, among one large semi-aboriginal tribe the alcoholic-drink habit was almost eradicated in one area through the efforts of an indigenous social and religious leader. For sustained progress over a wide area, however, the emergence of local leadership alone cannot be depended upon. Success can be achieved only by a national movement conducted on a moral or spiritual plane such as to attract and inspire local leadership everywhere. A beginning in many directions in this wider field can be made only by a wide national movement which may or may not be directly sponsored by the State. Obviously, political, social and religious leaders would all have to come together in such efforts.

Although a beginning can be made only in this way, it is necessary to emphasise that a mere movement will not lead to a stable solution. For this it is necessary ultimately to seek something that can take the place of the older bonds of cohesion and the older foci of loyalty in the societies of these under-developed countries. The family in China and the caste in India are recognised as institutions whose workings have deeply influenced the whole pattern of social life. It is also widely re-

cognised that this pattern either has broken down or is fast doing so. Industrialisation and urbanisation have accomplished much in this negative respect. On the one hand, however, the work has not yet been completed, and, on the other, the gap created by the disintegration of older forms has precipitated a serious crisis in society. Though caste no longer functions effectively in most spheres, caste loyalties still obtrude in all fields and prevent the building of a homogeneous society. Their harmful effects linger, while their potentiality for good has been largely lost: members of old caste or family groups have been found to act under considerable moral restraint while within the orbit of these institutions though becoming almost amoral outside it. The breakdown of the old institutions has thus resulted in a great decrease in moral restraints and a great increase in crass individualistic behaviour. The situation cannot be remedied so long as new social codes and new foci of loyalty do not appear.

It is obvious that the only new force capable of acting as an important unifying factor is nationalism; but nationalism cannot take the place of the family or of the caste as the primary unit of social organisation. In modern societies the small unit of universal validity—which at the same time has none of the defects of the older caste or family—is the otherwise undifferentiated society formed on a spatial basis, such as the neighborhood, location or region. Only such a local social entity, with no bar to entry, would also meet the needs of modern economic organisation. It would, no doubt, be supplemented by wider, functional groupings, but the universal primary social and political unit could be based only on the locality.

Two new emotional elements have thus to be introduced into these older societies: feeling for the locality or the region as a primary element, and nationalism as the general cementing factor. Considerable progress seems to have been made in the second of these; the first is seriously lagging. Its progress depends on (1) complete elimination of the older elements, such as the caste and the family and (2) creation, through actual working together of the constituent parts, of an undifferentiated local society. The latter will progress through the rise of such institutional forms as, for example, the co-operative, but a great deal can be done by the new political states in helping the movement forward. The local political units must be strengthened, and in all plans for social and economic development in every stage of formation and

implementation active and close co-operation of local and regional units must be provided for.

The foregoing reference to nationalism perhaps unduly simplifies the problem. No complications arise as long as a nationalist movement remains in its negative stage, bringing various elements together in an anti-imperialist or anti-Western campaign. It is at the stage of positive achievement that the shortcomings of mere nationalism become apparent. The nationalist movement, especially in those under-developed countries which have older traditions, must willy-nilly make a new synthesis. The real problem of these societies is that of finding the terms on which they can coexist honourably with the technology and civilisation of the West. There is no question of rejecting the latter; at the same time, however, it is not possible for these societies to accept the West completely—to forget their own past.

No important unit in the Asian region has yet found a real solution to this problem. The Japanese solution did not attempt a synthesis. It retained the blind superstitious elements of the old and combined them with the dominating and exploiting techniques of the West. Gandhism was little more than revivalism. Its useful work lay in fields where it combated evils, such as untouchability, within the older framework. But it made no attempt to deal with the major problem of coming to terms with machine techniques and the new materialist economic ends. Therefore, with all of its supposed influence among the Indian merchant and capitalist classes, it induced no moral restraints in their economic behaviour and left them as among the most predatory types in the world today. The failure of both the Japanese and Gandhist approaches lay essentially in not recognising the need for thoroughly demolishing the older institutional and class forms before a new synthesis could be attempted. Gandhism failed, in addition, because it would not frankly acknowledge the need for adopting machine technology.

Nationalism will thus fail if it takes the form of mere chauvinism or of revivalism. It must complete the work of destruction and go on to accept a new ideal which today can be defined only in the universal terms of an egalitarian society. There is much in the Islamic, Confucian and Hindu traditions which would not only support but also give positive content to such a definition.

It is a far cry from improved seeds to the ideal of a free and equal universal society. In the context of the problem of the under-develop-

ed countries, however, the two are closely interrelated. The progress of economic development and the adoption of new techniques can be brought about fully only by an all-embracing effort which, while occurring within a nation, really transcends national limits and has foundations that are truly laid on the basis of justice and equality. The writer believes that, if such an effort is made, it will progress at phenomenal speed and encounter no major obstacles. Much spade work for it has already been accomplished on the negative side, and there has been some preparatory work on the positive side as well.

It may be useful if the requirements for technical progress suggested in the foregoing remarks are stated explicitly in a summary form, as follows:

1. The producer, i.e., the peasant or the artisan, must be in at least a minimum state of economic well-being before he can be induced to adopt technical improvements. Technical progress in the case of depressed producers or classes of producers must be sought as part of a general programme of economic rehabilitation.

2. The producer must have an economic status that enables him to profit substantially from any technical improvements adopted by him; i.e., he must not be an insecure or rack-rented tenant or an artisan completely at the mercy of the financier.

3. The finances—investment or working capital—required for the adoption of improvements should be made easily available to producers on reasonable terms through appropriate institutional credit organisations.

4. Legislation must be passed to ensure that the benefits of public development expenditure do not accrue to a few privileged individuals or groups and that improvements whose adoption requires universal action are not blocked by the non-co-operation of a small minority.

5. There must be a minimum standard of educational attainment. It is doubtful, however, whether considerable sums need be spent on spreading mere literacy among the adults of today—at least among those above a certain age. It might be more useful to educate them generally by means of visual aids and the radio.

6. Detailed knowledge regarding the improvements to be introduced must reach effectively each individual producer or at least each location such as the village.

7. All improvements must be carefully tested for applicability in

the particular circumstances prevailing before they are recommended.

8. The technical improvement programme should be part of a national drive which rouses popular interest in the improvement of material well-being and in scientific and technical progress and holds out hope for progressive attainment of a social order based on justice and equality.

9. In order to strengthen the primary groups in the new social order, efforts should be made to establish in each locality, and separately for some functions, co-operative organisations; further, all plans for economic development and social progress should be articulated through neighborhood, local and regional organisations.

In short, there will be need for action in terms of economic reorganisation, credit institutions and other financial assistance, legislation, education and extension services, scientific establishments for adaptation and testing of improvements, and co-operative and local administrative systematisation which will be both complex and costly. All of this will represent merely the initial stage of capitalising on progress already made elsewhere. The really paying second stage of original research conducted in these countries themselves must begin further back, in research foundations.

PRE-CONDITIONS OF ECONOMIC DEVELOPMENT *

It is often pointed out that before it is able to undergo a process of economic development a society must be properly conditioned for it. It is necessary to understand in some detail what this implies. Modern economic development denotes many essential requirements such as the maintenance and operation of mechanical equipment in all kinds of activities, such as production, transportation, the functioning of economic institutions, such as joint stock companies, banks, stock and commodity exchanges, trade unions, etc., and the exhibition of many attitudes and aptitudes of which the central one is the appreciation of, and sensitivity to, the economic calculus. The process of economic development is likely to be easy and rapid if a society is able to respond appropriately in the various directions required of it. It is obvious that the responses need not necessarily be uniform and that the institutional structures, the characteristics of the elite and the attitude of the masses may all be different without necessarily holding up economic development. It is enough, in this connection, to point out that rapid economic development has taken place in societies so differently circumstanced as Victorian England, Imperial Germany, Meiji Japan and modern U.S.A. and U.S.S.R.

On the other hand, it is equally true that many practices, attitudes or institutions in under-developed countries may militate against an accelerated pace of economic development. There is, in the first instance, a whole series of taboos and prohibitions. The use of certain products or adoption of certain processes may be made difficult by these. Certain occupations may rank low, making progress in their techniques very slow. Certain classes may be prevented from entering many fields of useful economic activity, rendering high the percentage of the non-working population. Social attitudes towards aspects of natural phenomena or the animal world, e.g. cattle, may be such as to make economic

utilisation of certain forms of wealth difficult. The influence of some of these taboos and prohibitions may be limited; others may affect large fields and influence significantly total productivity. For example, the differing attitude towards the use of night soil as a fertiliser is said to make a marked difference between the productivity of Chinese and Indian agriculture; and the institution of the veil might reduce materially the proportion of the working population in a community.

Other obstacles in the way of adopting modern techniques may arise not out of any religious or social prohibitions or beliefs but merely out of traditional modes of life fixed through generations of comparatively static economic conditions. The predominantly rural life and agricultural pursuits of the bulk of the population in most under-developed countries breed in them many habits and attitudes which have to be shed before they can become efficient units in urbanised, industrial occupations. The business of a family farm or of domestic industry does not require that punctuality in hours of work or regularity of attention and attendance which is required of a machine operator or attendant. It is well known that even in countries which pioneered the industrial revolution the evolution of factory discipline was a difficult and long-drawn out process. Habits of living and sanitation suitable to a rural environment have to be considerably modified in urban centres; without such modification incidence of diseases and morbidity may become or remain very high in them. Changes may have to be brought about even in such matters as clothing. Attitudes of mind are more deep-rooted than sanitary habits or modes of clothing, and perhaps are much more difficult to change. They have, however, an important bearing on the working of modern economic society. Members of a farming community based largely on a subsistence economy would have little knowledge of the operations of a monetary economy and, as it would usually happen that they are also unlettered, their understanding of the processes of the modern market and their responses to its fluctuations might be very slow. It has been universal experience that when communities which have been largely self-sufficient hitherto are suddenly brought into contact with complex economic structures their members become easy victims of unscrupulous money-lenders and traders.

Related to habits of mind arising out of such factors as subsistence economy are attitudes bred out of social formations and groupings, especially such primary groupings as the family, the clan or the village com-

munity. Men brought up in such comparatively closed groups form group patterns of behaviour, i.e. their responses are conditioned by what the group habitually expects of them or does for them. As long as the groups function the behaviour of their individual members is, therefore, likely to differ from what might be expected of them acting as independent individuals entirely with their own resources or for their own individual advancement. It is true that in times of transition the survival of these groups often acts as a sort of safeguard and a protective cover to members of what might otherwise become a mere disintegrated mass. However, it is equally true that the continued existence of these groups and the habits of mind formed by them make individuals in a society less mobile and less responsive to economic forces than they might otherwise have been.

From social groupings to social strata is an easy transition. Social stratifications can mould economic behaviour in a variety of ways. There is, in the first instance, the association that may be established between social strata and economic callings or occupations. Such association may be more or less rigid. At one extreme would be direct prohibition, at the other it being thought merely unusual for an individual from a particular stratum to follow particular occupations. Social stratifications, however, usually signify association with economic grades also and the normal result is to reduce mobility between occupations. Moreover, it is the usual characteristic of social stratification that the scale of values embodied in it gives prominence to priestly, clerical, military and land owning activities, especially as contrasted with the mechanical arts and manual work. As a result, particular skills essential to modern economic development are not sufficiently highly cultivated. It is the usual complaint of the Westerners against highly trained personnel from many Asiatic countries that they appear reluctant to do the work themselves and thus do not learn enough of its practical side and are not able to train properly or give a lead to workers under them. When social stratification goes to such extremes as constituting a caste society its influence on the trend of modern economic development may be even more marked. For, it may then happen that the course of this development may be determined largely by single groups with marked biases, such as the intellectuals or the financiers.

Finally, attention may be drawn to influences deriving from the recent history, political and economic, of the under-developed societies.

An important feature common to a large number of these societies has been the phase described as colonialism. This has meant that the progress of modern economic development in them has not been as all-sided as it normally should have been and that development has been arrested in particular directions. Another historical feature which is important, though not equally common, has been the creation in many of these economies of what have been called plural societies. This means a society in which important sources of economic power or branches of economic activity are under control of classes or groups who do not identify their interest with those of the bulk of the people forming those societies. This constitutes an important political and social problem and an obstacle to rapid and well-balanced economic development.

The foregoing enumeration of the social and institutional obstacles in the way of rapid economic development appears, at a first glance, to make the problem of bringing about such development largely hopeless. Experience, however, indicates that one is likely to overestimate these difficulties. Certain habits or handicaps can, for example, be easily removed even though they appear to be deeply rooted. For example, it has not been found very difficult to accustom immigrants to cities from rural areas of under-developed countries to habits of living appropriate to an urban environment. This has been specially easy when suitable housing and other amenities have been made available. In the same way, the intensive training of almost illiterate workers in all the simpler industrial operations has given quick results and it has not taken long to inure new rural immigrants to regular habits and to factory discipline. It may thus not be difficult to deal with lack of familiarity with urban surroundings or machine technology, if no forces hinder the acceptance of the new surroundings or techniques by the people. The more important aspects in a consideration of this matter are those arising out of traditional taboos and prohibitions and out of results of ages-long social stratification. Obstacles arising in these fields would be overcome only if a positive effort backed with sufficient influence is made in this behalf.

Fortunately, it is possible in most under-developed societies to count on some factors which indicate that such effort might be made and that it might be successful. The most important of these factors is the wave of national feeling that is sweeping the backward areas of the world. Nationalism is everywhere associated with a twofold objective. Firstly, to be able to order one's own affairs, and secondly, to attain a

position of dignity and importance in the community of nations. Associated with the second objective is the desire to increase to the greatest possible extent the wealth and income of the nation and exploit to the utmost, to this end, its internal resources. The exploitation of resources has been usually identified with industrialisation and with the adoption of modern scientific methods and western technology. Indeed, a remarkable feature of the existing situation is the universally high regard in which modern machine technology is held. The high regard for western technology and the nationalistic urge to adopt it fully have already been responsible for negating the influence of a great many traditional prohibitions and prejudices in most under-developed countries. The movement may be said in most cases to have gone far among the educated classes in the under-developed countries. Where appropriately initiated and handled it has also been proved possible to educate the masses, to eradicate their prejudices and to arouse in them an interest in modern scientific methods and modern technology. Whether this effort is undertaken or not depends on the more intractable circumstances arising out of social and economic stratification.

In the recent demand for rapid economic development by under-developed countries two ideas are implicit: there is firstly the urge for an increase in economic wealth and in the admitted low standards of living and, second, the belief that a planned effort with or without foreign aid can achieve this. While there is universal agreement regarding the second, the pace and the manner in which the first is to be attained are under dispute. The present division of wealth and of economic power in most under-developed countries is extremely uneven. In some, wealth and economic power are at present concentrated in the hands of an older, predominantly land-owning class; in others it has already passed into the hands of a comparatively new financial, commercial and industrial capitalist class; in still others, the transition has begun but is not yet completed. The process of an intensification of economic development with its insistence on capital formation might be accompanied either by a much larger step towards economic equality than has so far been undertaken or contemplated in these countries or through maintaining the existing inequalities in distribution or perhaps even intensifying them. And if the progress towards greater equality is to be made peacefully, it can only be on the initiative of those who hold the reins of political and economic power in these countries. If

they take a long-range view, even ordinary intelligent self-interest should urge them to move towards greater equality. The forces in the world today making towards an ultimate acceptance of comparative economic equality appear overwhelming. Its formal acceptance has been embodied in the United Nations' Charter and it is put forward as an objective by capitalist, socialist and communist governments. The press, the radio and the cinema are powerful instruments all over the world presenting to peoples of the under-developed countries incredible pictures of what might be attained through adoption of western technology and emphasizing the importance of the masses in the process. The role of the cinema is specially important as it presents an effective visual picture and reaches everywhere even the illiterate and the ignorant.

A movement towards economic equality in a poor country would require specially large sacrifices from the rulers and the intelligentsia; on the other hand, a mass movement towards education and increased productivity would not be successful unless it was informed by a genuinely and transparently equalitarian intent.

We began with a reference to attitudes and habits of mind; we might also end on that note. All attitudes, habits of mind, patterns of behaviour, etc. are born out of chiefly historical institutional modes of living. These modes of living in most under-developed countries have had in the past little direct connection with economic development. If now rapid economic development is to become the main objective of these societies, their attitudes and habits of mind must change correspondingly. Emphasis on economic development means placing a higher value than has been usual hitherto on the economic criterion. The economic criterion is not to be confused with the money income of an individual; it may equally appropriately apply to economic well-being of the social group as a whole. It will depend on the structure of, and motivation in, the particular society, whether emphasis is placed on individual money income or social welfare. Whatever that may be, concern with economic development certainly presupposes placing high value on economic factors with the ultimate attainment measured in terms of the material standard of living. It may be taken for granted that a high valuation of the material standard of living is already fairly common in most under-developed economies and where it is not so the process is well under way. Concern with economic development, secondly, implies readiness to accept the process of rapid development as

a desirable process. Rapid development connotes change in a variety of ways for large numbers of people. It means change in the traditional organization of production; it means rapid acceptance of change in techniques as a normal and continuing process, acceptance of a change of occupation; and, a change-over to urban surroundings for a large number of people and other concomitant changes. Readiness to accept change, to be mobile in occupation, habits and habitat is a necessary condition precedent of rapid economic development. This might not be fully thought out or understood in these terms in the under-developed countries; but there is little doubt that in most of them the appropriate frame of mind already exists. Recent upheavals, especially the events of the second world war, have largely brought this about. There is restlessness, tension, expectancy among the masses everywhere. It remains to be seen whether these are immediately utilised for the cause of peaceful progress or not. The prospect depends largely on the attitude of the governing classes in the under-developed countries but also, to a significant extent, on social thinking among leaders of the capitalist world.

ECONOMIC DEVELOPMENT IN INDIA *

I

The problem of the rapid economic development of the underdeveloped areas of the world has assumed great importance in the post-war period. This is largely due to the progress of the sphere of communist influence. Governments of the underdeveloped countries in non-communist areas have begun to become aware of the need to improve internal economic conditions in order to keep in check the growing influence of communist parties and it has become an established axiom of American policy that the Communists can be effectively contained in the long run only if the standards of living of peoples in the underdeveloped countries rise rapidly. The problem was recognized and formulated in its present form only in the post-war period and it has received steadily greater attention with the increase of tension between the U.S.A. and the U.S.S.R. and the growth of effective communist influence, especially in Asia.

The growing sense of urgency has been exemplified by the constant presence of the subject on the agenda of international authorities. Last year the Secretary-General of the U.N. appointed a group of experts to report on the problem. The appointment of the group did not flow directly from consideration of the problem of economic development. Formally, the group was the counterpart to the body of experts that had been appointed previously and had reported on the problem of full employment. This earlier group had considered the problem of maintenance of full employment only in relation to the industrially advanced countries and chiefly in relation to its cyclical aspect; it had stated that for the underdeveloped areas the important problem was that of chronic underemployment, the solution for which could be found only in rapid

* *India Quarterly*, April-June, 1962.

economic development. It was recognized by this group that rapid economic development of the underdeveloped areas was a necessary precondition even for the success of policies of maintenance of full employment in the industrially advanced countries. It thus happened that the group of experts appointed formally as counterpart to the full employment group devoted almost all its attention not to the problem of unemployment or underemployment but to economic development which had been agreed on universally as its only remedy in the underdeveloped countries.

The second group of experts submitted its report in May 1951. This report has been considered at many stages of the organizational structure of international authorities. The reports of debates in these bodies throw valuable light on the points of view of the various countries and the time is opportune to consider the possibilities of national and international action.

The U.N. experts divided the measures necessary for economic development into two classes—internal and external; but the main controversy in international organizations has centred round the recommendations of experts regarding international or external measures. This for two reasons; first there was not much that international authorities could do directly in respect of the internal measures recommended by the experts; there did not also appear much difference among representatives of the various countries on the recommendations of the experts in this division. This absence of any expression of differences of opinion was due not to real agreement but to no attempt having been made to explore fully the implications, in terms of concrete policy, of these recommendations. Another feature of the debate to which attention may be invited was the large measure of agreement on a number of points of the analysis of the experts. The chief expressions of difference of opinion on these points came from the representatives of the countries of the Soviet Bloc. To them it was clear that the analysis of the experts, in so far as it did not accept their orthodox formulations, was at fault. Outside the Soviet Bloc, there appeared, in principle, agreement on certain major points which would have been surprising some years ago. In relation to internal measures the experts had emphasized the need for large political and social changes and had referred to the need of a social revolution which would bring about a shift in the distribution of income and power. This need was not directly challenged. Secondly, there appeared no opposition to the idea of an integrated plan

for economic development; even the official memorandum submitted by the United States Government on the report of the group of experts accepted this idea. Here, as elsewhere, fundamental differences in approach became clear only through the details of the programme of action put forward by the different groups.

Regarding the general approach Americans and representatives of other older colonial areas contended that the development of the underdeveloped areas could take place on the same lines as the development of these older colonial areas. It was largely through the initiative of the private capitalist that the colonial economies had grown: None of them required even initially the importation of large amounts of foreign capital. Therefore, the spokesmen of this group urged, the underdeveloped countries should rely as far as possible on their own resources and should build up their economies with incentives offered to private capitalists. Even the foreign capital that these countries would require should be obtained through investments made by private capitalists; the main requirement for this purpose was the creation of favourable conditions in the underdeveloped countries. Thus the thesis of the representatives of these countries was that the underdeveloped countries should create stable conditions, assure private capitalists from abroad and encourage domestic private enterprise to function actively within their own areas. If they did this, economic development would proceed in a normal and natural manner. The implication of the thesis was, of course, against an integrated overall economic development directed mainly by a central authority, and many representatives of these countries doubted both the utility of such a plan or the ability of the underdeveloped countries to implement it even if it could be usefully formulated. Some representatives of countries like Australia and Canada went so far as to doubt whether it would ever be possible for the underdeveloped countries to increase productivity fast enough to counteract the effects of the growth of population.

It would be useful to examine this plea of the recently colonized countries that the development of the underdeveloped areas should take place on the lines of their own past development. Their reasoning is based chiefly on historical analogy. It is hardly possible to imagine a greater contrast than that presented by the picture of conditions in which development in countries like U.S.A. or Canada took place and the existing conditions of the more populated underdeveloped regions of the

Asian continent. At the time, the modern process of development began, that is in the 18th century and after, these colonial countries were largely bare of population and had enormous unused natural resources and vast land areas in which populations in possession of the most improved techniques in the world were being slowly introduced. For a century and more land and other natural resources were abundant, a large body of comparatively trained, vigorous and enthusiastic immigrants was steadily arriving and the countries generated considerable incomes and investment resources internally and also attracted substantial funds from abroad. When these developments took place large parts of the world, i.e. countries other than those of Western Europe, were backward and the terms of trade between the agricultural and industrial economies were favourable to the latter. Also, the social and economic structure and philosophy of these colonial countries were, at least initially, largely egalitarian. The position of the Asian countries of today presents a sharp contrast to this picture. All these countries have age-old economies in which the process of settlement on land has gone on for centuries and the units of cultivation have been adjusted to low sizes compatible with an older technique and the older ideas of possible standards of living. These economies have further been subject for a century or more to forces which have upset their balance, destroyed the fabric of their traditional industry and increased the pressure of population on land. They have also a highly stratified society riddled with privilege and quasi-monopolistic positions.¹ The existing internal situation of these old economies is, therefore, vastly different from that of colonies formed by Europeans in North America and Australia in the 19th century. Moreover, the transition from the older economies to a post-industrial revolution economy entails high cost. Technological unemployment of resources is the chief element of such cost. The costs of the transition in countries of Western Europe were, in this respect, successfully transferred by them to the colonial and dependent parts of the world. In countries like the U.S.A. and Canada there were no

1. Note the following description by an American economist of existing West European capitalist society. 'Restrictions upon entry, concerted cartel practices, use of government to maintain vested positions, and the like, are the rule there and as a result the economy is highly rigid and extremely inefficient'—*American Economic Review*, Sept. 1951, p. 565.

large pre-industrial revolution structures which would be affected by the transition, and the immense unused natural resources and the constant stream of immigrant population kept up a constantly high tempo of development. Even so, the U.S.A. maintained for the greater part of its development a high protective tariff. The situation is radically different in the underdeveloped areas today. There are large populations and extensive old structures of traditional industry which greatly intensify problems of unemployment of resources. The external situation is also materially different. A larger and larger part of the world is being organizationally transformed. Therefore, industrial development of these areas takes place in a much less favourable world situation than that of industrial transitions in the 19th century.

Apart from pressing the general analogy of the development in the colonial countries, representatives of these countries urged a broadly cautious attitude in planning for development. In this they were joined by representatives of the countries of West Europe. Together the representatives of all the industrially advanced countries formulated a programme of development which they called realistic.

One may summarize as follows the contents of this realistic programme. It favoured essentially an effort at education and at increasing productivity, especially of agriculture and traditional industry, by the improvement of techniques. The problem of the reorganization of agriculture was considered chiefly in relation to the remnants of the older landlord system where they existed. Active measures were advocated to eradicate that system and to bring into existence instead a society of peasant family farmers. In this connexion it was important to observe the American insistence on mentioning specifically in the resolution on land reform the aim of creating small independent farms and on opposing everything that could be interpreted as smacking of collectivization. ^ALittle reference was also made by representatives of the developed countries to problems of industrialization. In relation to this aspect emphasis was placed on the large requirements of capital and of the greater possibilities of advance in and the immediate requirements of the extension of consumer industries. To the extent that the field of industry was capable of profitable exploitation, it was emphasized that it should be left to private enterprise and that if the underdeveloped countries held out proper assurances and made conditions favourable, the foreign investor would be in a position to supply the necessary

funds. In short, the attitude of the spokesmen of this group was that it would be wrong for the underdeveloped countries to pitch their aims too high; the only social revolution that they should content themselves with should be that of abolishing the older landlord class and creating a small-peasant class; in industry the emphasis should be on development through private investment, domestic and foreign, mainly in the direction of simple consumer goods industries started by domestic manufacturers and the exploitation of special resources by foreign capital. The approach was thus both simple and direct. The immediate requirements of the standard of living could be satisfied by growing more food and more industrial consumer goods. The peasant would be content with acquiring a farm and, for the rest, the domestic and the foreign capitalist would look after the problems of long-term industrial development.

II

Before discussing further possible approaches to problems of development it is necessary to point to some important differences in underlying conditions among countries which are collectively described as the underdeveloped areas of the world. At least four broad divisions may be made. There are the countries in Central and South America which are in many respects close to the European historical traditions; also, in these countries the ratio of resources already fully utilized to those not so utilized is not large and the problem of chronic underemployment in agriculture does not usually arise. In many of them, modern industry has made considerable progress, at least in specific areas; and broadly their problems may be said to be of a type less urgent and difficult than those of the others. We have, next, the larger part of Africa in which the existing conditions of technique and material development are among the most backward. The pressure of population is not so insistent but the continent, as a whole, is still suffering from a colonial regime which it may take some years to shake off. In Asia, the problems of the Middle East have to be differentiated from those of the countries of the South and the East. The speciality of the Middle East area, which includes Egypt, is oil; a full control over the exploitation of its oil resources may give this area an asset which may solve a great many of its problems of investment resources and economic development. Also, countries of the Middle East, other than Egypt, have no

immediate problem of population. The countries of South and East Asia, including Pakistan and the countries of the Far East, face, on the other hand, most of the problems of underdevelopment in their most serious aspects. They have, in relation to their large populations, a comparative paucity of undeveloped resources and no special valuable asset like oil. Pakistan, India, Ceylon, Central Indonesia, Central Philippines and China—all of these suffer mostly from problems of a like nature and it will be the problems of development of these areas to which I shall pay special attention.

We may begin by considering the possible progress in development if the realistic approach as defined by the industrially advanced countries is adopted. There are available two national development plans which exemplify the possible results of this approach. One is the development plan for Colombia prepared by a mission sponsored by the International Bank and the other is the Indian five year plan. The main approach in both these plans is similar. There are, however, important differences which must be noted before commenting on the adequacy of performance of the two. Firstly, Colombia is a country much richer in natural resources and in per capita wealth and income than India; also, the magnitude of the effort outlined in the Colombia plan is very much greater than that in the Indian five year plan. Because of these two important differences the criticisms we shall make of the Indian five year plan may not apply to the Colombia plan. I am not in a position to say anything regarding the Colombia plan nor is it possible to say that the conclusions flowing from the criticism of the Indian five year plan will apply to countries of South America. The conclusions to be drawn from an examination of the Indian five year plan are valid, in the first instance, for India itself and would, by analogy, hold good in many respects for countries of South and East Asia which are similarly circumstanced.

The main features of the Indian five year plan are as follows: The plan is in the main a plan of public expenditure in which the emphasis is on construction of irrigation and power projects and on the development of productivity of agriculture through spreading of advanced technique. There is considerable expenditure proposed on the development of transport facilities and a small amount on development of industry. There is no well-defined plan for the reorganization of agricultural production or of ancillary activities connected with agricul-

ture. Large-scale industry, banking and commerce continue as before in private hands and the targets in the plan, of investment and production in the industrial sector, embody expectations of the extent to which, in appropriate circumstances, private industry might develop. An important objective of the plan is increase of food production within the country and the plan pays special attention to increasing the supply of industrial consumer goods, for the manufacture of which large-scale industry exists in India at present. In common with the American view and with what has been attempted in the Colombia plan, the Indian five year plan does not look beyond its period, and does not think in terms of a developmental process which will be continuing and for which the initial basis is afforded by the performance in the first five years. The five year plan is thus closely modelled on what one may term the American view.

It would be unfair if this is taken to imply that the Indian Planning Commission deliberately adopted the views of the representatives of the industrially advanced countries. The correspondence between these views and those in the approach of the Colombia plan and the Indian five year plan merely underlines the logical consequences of the adoption of a particular approach. Once it is determined that the field of modern industry and trade is a field that is reserved for private enterprise the sphere of the planning effort is automatically very largely limited. In the Indian case Government goes so far as to reserve to itself the right to initiate or launch industrial activities in which the private industrialist takes no interest, i.e., Government undertakes to start such activities as either require capital investment so large that it is beyond the resources of private industry or to establish activities which are considered too risky by private enterprise. For the rest, it leaves the field open to private enterprise, suggesting later intrusion if private enterprise fails to develop in particular directions. Even this modified approach limits severely the possibilities of planning in the industrial sphere; for, Governmental activity is looked upon as merely supplementary to private activity and as coming in only when private enterprise seems to have failed. It is obvious that in these conditions Government can neither impose a pattern of development on private activity nor dictate the pace at which progress is to take place. Special activities requiring large investment funds, e.g., building of irrigation works, generating power or building a modern transport system, have always to be undertaken

by other than purely private enterprise. These, therefore, become a direct responsibility of the State in such plans. In the agricultural sphere, the abolition of a landlord system is generally agreed upon; but no important steps for reorganization of a small farmers' society can be taken. With the prevalence of the notion of a strict private enterprise system in the industrial sphere, any drastic change in the organizational unit in peasant agriculture would be taboo. Again, any efforts at, say, reservation of agricultural marketing and processing to the co-operatives would offend against the overall aim of maintenance of the private trader and operator. Therefore, excepting the spread of newer techniques, nothing much can be attempted in the sphere of agricultural production. The similarity in the different proposals thus stems from the central idea, accepted by all the three, of trying to achieve development mainly through the instrumentality of the private enterpriser and investor. In effect, a long-term plan of development of an integrated character is inconsistent with the fundamental acceptance of this idea because such a plan would lay down in advance lines of a process which should properly, from this point of view, be left chiefly to the operation of economic incentives and market forces.

We may now proceed to see to what extent the magnitude and direction of a programme based on such an approach can be adequate and appropriate. The aims of our economic policy stem from the wider national objectives. These are the development of internal resources so as to gain in strength abroad and contentment at home. There is no difference of opinion that rapid economic development is desirable from both these points of view. The present economic situation of the country cannot be said to be satisfactory. We seem to be just holding our own for the last decade or more. All the broad indications point to no increase in the standard of living. The availability of food is certainly not greater than before. Food crises seem to have become as normal a feature of our economy as the dollar crises in Britain. Calculations of the average length of cloth available for domestic consumption do not show an improving situation and in the matter of shelter and housing, the conditions in our cities and in even the large towns have notoriously worsened since 1940. There may be some credits to be put on the other side, such as that of an improvement in the condition of some classes of agriculturists as compared with the situation in the thirties. The whole picture, however, is not reassuring and no ten-

dency or operative trend during the post-war period has indicated that relief will come from any quarter or that advance is being made in any particular direction. The problem created by the pressure of population on land is also urgent. The rate at which our population is growing is not among the highest; but it is high enough to cause concern. The existing situation regarding underemployment in agriculture is serious. Statistics relating to the size of the average cultivated holding in almost all the States point to a situation where considerable proportions of the working population at present engaged in agriculture could be easily removed from that occupation without affecting productivity; also, they point to a unit of productive organization so small that no considerable advance in productivity could be made and no proper basis for improving the economic structure could be found without significantly increasing its size.

It is clear that we require a rapidly increasing production of material goods; but a slogan of more production is by itself of no use. What is required is an integrated plan of development which would bring about larger and more varied production. The obvious approach to this problem is, of course, that of exhorting workers to greater efforts and of taking steps for improving technique while maintaining the present structure. This is essentially the approach of the Indian five year plan. Such an approach would be justified if the difficulties of the situation were not fundamental and structural. Our economic backwardness or our poverty are not the results merely of low intensity of human effort or of a backward technique. The history of the last two centuries in all the industrially advanced areas of the world has definitely proved that economic development means a shifting of emphasis from primary production, in the sense of the direct exploitation of natural resources, to industrial production. In all countries the general level of incomes has, in modern times, been greater in the industrial sector than in the agricultural sector and reorganization or advance in agriculture has usually been brought about by shifting workers from agriculture to industry. It has also been found that mere emphasis on improving technique in primary production is not only inadequate but that it does not bring about a lasting solution.

The last feature is related to the main characteristics of modern population growth. The growth of population in the post-industrial revolution period has been marked by two separate trends. Firstly, with

improvements in public hygiene, especially through control of epidemics responsible for considerable mortality in the past, the death rate has been progressively lowered. The trend towards a lowering of the birth rate, wherever it is in evidence, has been usually associated with the correlated phenomena of industrialization and urbanization. The first trend, that of a lower death rate, is in operation throughout the world and is associated merely with the existence of a government of minimum efficiency and not with any particular type of economic structure or any level of economic well-being. The peculiar features presented by the population problem in most countries of Asia are due to this first trend having been in operation for a long time, while the second trend in most of the countries had been artificially kept down from emerging through the operation of colonial regimes. As long as industrialization and urbanization do not take place no balance could be attained in the populations of these countries. It has often been doubted whether modern methods of controlling population growth will be readily accepted and will spread in use in the industrial and urban communities in Asia, as they have done among similar communities of peoples of European stock. Whatever the doubts be on this score, it is clear that these cannot make significant progress directly in societies which are in the main rural, and that it is by slow filtering of ideas from urban communities that in time the pattern of birth rates in the rural communities may also become affected. Therefore, any programme which lays emphasis on agricultural development is a programme which by its success merely postpones the time when the inadequacy of resources to population becomes again apparent. The recent history of countries like Egypt has emphasized this lesson.

In the same way a programme for immediately increasing the supplies of consumer goods is a programme that has chances only of a short-term success ; for, economic development means a complex industrial structure and an economy which is well-balanced internally. An emphasis on increased production of consumer goods because this can be easily achieved or because the products are immediately in demand exhibits only a short period view. This view aims at an immediate increase of certain goods rather than at general economic development. In this sphere again universal experience shows the necessity of starting at what would appear to be apparently a more remote point, i.e., with the basic industries on which alone lasting economic progress or develop-

ment can be based.

The adequacy or propriety of the approach may also be brought out by an examination of what the Indian five year plan expects to achieve in terms of increased welfare or merely increased production. It is clear that the extent of social security and assistance measures in India today is insignificant. A beginning has been made with some measures related to industrial workers, but measures of this type affect a microscopic minority of the Indian population. For the large bulk of people even the most elementary social services are not available. Among the directive principles of policy embodied in the constitution of the Indian Republic is one which promises securing compulsory free primary education to all within a period of 10 years. No State, excepting Bombay, has yet framed a programme for attaining this end and the Bombay programme is already breaking down for want of funds. Any programme of social security or assistance for large populations in a poor country like India requires resources which far exceed the current capacity of the Governments of either the Union or States in India. The five year plan does not point to or provide for any real extension of welfare activities of the State.

It does not in any way also indicate more equal distribution of income or wealth. The Finance Members in India have been, for some years past, engaged in lessening the burden of direct taxation. As long as Government feels that the limit has been reached in the matter of direct taxation increased government expenditure can be sustained only by proceeds of indirect taxation or by inflation. The burdens of indirect taxation and of inflationary pressures bring about greater inequality and not greater equality in distribution. Also since industrial development is to be brought about by leaving the field in the hands of the private industrialist, most of the extra gains of the development process, it must be clear to the meanest intelligence, will remain in those hands and not be diffused broadly.

The magnitude of the effort indicated in the five year plan is also very inadequate. It is difficult to say what results the Planning Commission itself expects to be reached at the end of the five year period. The most detailed calculations made by the Commission are in relation to agriculture. Here it is seen that not much more than maintaining the position of 1950 in terms of per capita availability at the end of the five year period is expected to be achieved in the basic require-

ment of food. A special effort in food production is included in the five year plan. In other directions no such effort is indicated and the Planning Commission is content, in relation to the production of commercial crops, with the ordinary progress which it expects will come about in view of favourable factors which, it says, prevail at present. Industrial production is almost wholly in the private sector and the estimates of production made in that sector are obviously liable to a considerable margin of error, because of the forces of fluctuating market conditions and price relations during the intervening period. In the field of small-scale industry definite action by way of investment and direction is visualized to an even less extent than in the sector of large industry. Therefore, while it is impossible to conjecture the magnitude of results that may be achieved, it does not appear that the per capita income level would be expected even by the Planning Commission to be increased significantly as a result of the plan. As regards distribution of the total income, it has been pointed out how the distribution is not likely to become more even with the progress of the plan, in spite of the many assertions to the contrary made by the protagonists of the plan.

The reasons for the inadequate effort and uncertainty of realization are not far to seek. The Indian five year plan falls neatly between two stools. It is not prepared to go far enough in the direction of creating conditions favourable for a rapid development through the agency of private enterprise. To do this, it would have to reduce much further the burden of direct taxation, dismantle a great deal of its labour legislation and disavow its social aims. For, by doing this alone could present sacrifices be imposed to a sufficient extent on the mass of the people. On the other hand, being wedded to private enterprise the Indian Government cannot think in terms of a central pool of savings, of centrally directed investment and of a general regime of austerity imposed through direct controls and fiscal devices. The failure to take boldly to one or the other of these lines logically leads to a plan which can accomplish little.

III

Most areas which are today underdeveloped have, in the recent past, been under the influence, direct or indirect, of the highly developed capitalist countries. Among them there are no instances of rapid econo-

mic development. The Philippines may be cited as an example of a country governed by a modern industrially advanced State which had no need of obtaining a net direct return from exploiting the resources of its colony. Even so, the trend of economic development in the Philippines was not strikingly different from that of the neighbouring colonial areas of South-East Asia. P u e r t o R i c o is another example of a small colony benevolently administered, receiving considerable external aid and yet failing to develop its resources at a rapid enough pace.

The largest numbers of recent cases of development of underdeveloped areas are within the communist bloc of countries. It would, perhaps, prejudice unnecessarily the case if one reasons largely from the experience of these countries. Though no underdeveloped country has developed rapidly outside the communist bloc during the last thirty years, there is the instance of Japan which started its course of development towards the end of the last century and made very considerable progress during the opening decades of this century. It is possible to reason by analogy from the case of Japan and from the general previous experience of the other industrially advanced countries. A discussion of some of the problems involved and of the lessons to be drawn may be found in Dr. Singer's lectures on 'Development Projects as part of National Development Programme,'² delivered at the U.N. Asian Centre on agricultural and allied projects at Lahore. One refers with special confidence to Dr. Singer's discussion, as the U.S. Government in its memorandum on the report of the group of U.N. experts referred in approving terms to this Centre conducted by the U.N. The process of development in most countries and circumstances may, according to Dr. Singer, be described as follows: 'It is the story of the present sacrifice, maintained over extended periods and someone to see that the results of these sacrifices went into economic development.' Dr. Singer's view of the process of development in Japan is that, 'in the first instance the process of development meant a steady increase in concentration of wealth amongst a small group of capitalists. These capitalists with the help of the ruling classes were able to keep wages low and go very slow, on social improvement in the early stages.'³ It was again,

2. Included in the U.N. publication *Formulation and Economic Appraisal of Development Projects*.

3. See also, Saburo Okita—'Japan and Asia's Economic Development,' *India Quarterly*, October-December, 1951.

in Dr. Singer's terms, a combination of a very unequal income distribution with exhibition of a puritan spirit on the part of those people who received the big incomes. Evidently, the Japanese industrialist was not only puritanic like his fellow industrialist in England a century before, but was also patriotic and worked in close collaboration with Government in attaining the aims of national economic policy. The business of seeing that the result of present sacrifices went into economic development was done in Japan largely by the Government which had a fairly well defined picture of its priorities and which had a public development programme closely synchronized with the private development programme and which happened to have obtained in this work the full and honest collaboration of the industrialists. To the extent that Japan obtained foreign aid, that aid is stated to have been channelled by Government into high priority investments. It is thus clear to Mr. Singer from the experience not only of Japan but also of other countries like the U.K. and the U.S.A. that economic development can follow only a large effort involving considerable present sacrifice, the central direction of pooled investment resources and dominance of a puritanic spirit over both present consumption standards and the manner in which investments for the future are made.

The first decisions to be made in relation to a programme of economic development in a country like India are regarding the minimum magnitude and the main direction of the effort. Dr. Singer, for example, talks of a minimum starting level for the cumulative process. It is interesting in this connexion to note that he considers the crucial phase in Russia was through the period between 1921 and 1926 when he feels that collectivization of agriculture took place and some surplus in food supplies was achieved. This appears a version of the case which is slightly different from the generally accepted one. One would have thought that the term collectivization is properly applied to what happened after 1927 and not before it, and that the main reason for the somewhat dangerous experiment in collectivization was that in the New Economic Policy surpluses that may have been generated in agriculture were not yet available for a communal investment effort. Dr. Singer seems to believe that there are opportunities almost everywhere of no-cost institutional changes which might bring about a large increase in productivity. It is not necessary to inquire whether the concept is a valid one and whether there are available in any society such

no-cost changes. It appears clear that in India no such opportunities exist. Ours is a system already of innumerable peasant farms, in which the abolition of zamindari would have no organizational effects, and would not release enthusiasm or effort in the way that the Green Revolution is supposed to have done in the countries of South-East Europe or in China. Therefore, with us, the problem of attaining the minimum level of investment to start the cumulative process has to be considered in terms of available real resources.

Ideas regarding the magnitude of the effort required and the proper direction of it are closely interrelated. The U.N. experts made in their report an estimate of the magnitude of capital resources required for the economic development of the underdeveloped areas of the world. This is the one direction in which statistical measurement of the problem was attempted. It is not possible to measure the magnitude of the problem of internal, political and social adjustment. This may be large or small or more or less difficult from country to country. Some aspects of internal work such as that of training industrial personnel or generally educating the masses may be defined in some quantitative terms. But the quantitative measure of even educative or public health efforts has to be ultimately conceived in terms of total resources that can be spared for such work. There are, no doubt, some directions in which physical shortages may affect the timing of the development programme as a whole. One of the most important of such directions may be the availability of technical personnel. However, most of such difficulties may be met by an extra expenditure of national resources. Ultimately, apart from the changes required in the social or political structure, the most important aspect of a plan of development is the availability of resources. By and large, it may be taken for granted that if the total resources are adequate the development programme will not be significantly held up on account of inadequacy in particular directions provided that it is properly planned from the beginning. Therefore, the most important magnitude to be assessed or estimated was that of the total resources required for initiating and sustaining an integrated programme.

It is obvious that any attempt to measure such magnitude involved assumptions regarding the nature of the process of development. Therefore, before it was possible to discuss the magnitudes it was necessary to arrive at some agreement regarding what was involved and what

were the objectives of the plan. The U. N. experts approached this question from two points of view. The immediate origin of the appointment of the experts was concern with the problem of full employment. It was chronic underemployment in the underdeveloped countries that had drawn attention to the need for their planned development. Therefore, the plan of development had to be such as could resolve chronic underemployment in these areas of the world. Secondly, the experts were told that the U.N. authorities were concerned about the great gap in the national incomes of various member countries and that for fulfilling objectives specifically laid down in the U.N. Charter as well as for helping the attainment of generally peaceful conditions in the world it was vital that the existing differences in the levels of national income between the rich and the poor countries be reduced. Most of the rich countries were increasing year by year their average per capita productivity and incomes. Therefore, the aim of a plan of development for the underdeveloped countries would be to generate in these countries a rate of increase in per capita national income which was larger than the corresponding rate of the industrially advanced countries. It has been noticed that in recent years the underdeveloped countries had failed to show progress in relation to levels of their per capita income, and that consequently the difference between the rich and the poor had been increasing instead of lessening. The aim of increasing per capita productivity and national income involved increasing productivity and income at a rate that would, firstly, neutralize the current increase in population in these countries and subsequently lead to higher levels than the present. The admittedly crude and rough estimate made by the group of experts was related to the two requirements of reducing underemployment and increasing per capita incomes.

The statistical calculations of the group of experts are based on certain simple assumptions. Firstly, it is assumed that development must lead to a growing proportion of the total population being absorbed in non-farm occupations. This is both because the state of chronic underemployment is the acutest in farming in the large, populous, underdeveloped countries and because in most of these countries the present average incomes from non-farm occupations are much higher than those in agriculture. The calculations of the group of experts are based on the minimum objective of preventing further increase of persons occupied in farming; this objective involves providing non-farm occupations for

all increases in the number of gainful workers brought about by future increases in population. One set of figures is derived from estimates of the number of such workers multiplied by an average estimate of the amount of capital required to provide non-farm employment for each worker. Another item in the estimates of magnitude is related to expenditure which would increase agricultural productivity. As the average amount of capital investment required per non-farm worker was pitched at a figure which would provide for use of modern technique there was no need to make calculation of other investment for increasing productivity in non-farm occupations. In agriculture an increase in productivity was held to be possible through an improvement in technique; and the resources required to spread the knowledge of new techniques and to enable the adoption of these techniques had to be estimated. The experts made a rough and ready calculation and arrived, on the addition of the two items, at a rough estimate of the total magnitude of resources required to finance the economic development of the underdeveloped areas of the world. The calculation of the experts referred to a volume of investment which the experts expected would increase the per capita income of the underdeveloped countries at the rate of two per cent per annum; that is, if a country had a per capita income of 50 dollars in 1950, this would become, in 1970, \$75 approximately. If in the meanwhile the per capita income of the U.S. moved from 1,400 dollars a year to, say, 1,750 dollars a year the proportionate difference between the two would have been reduced; the absolute difference in the two levels of incomes may, of course, become even larger than before. Put in such statistical terms the calculations of the magnitude of effort required, made by the group of experts would be seen not only to have not been extravagantly high but to be almost the minimum required if the aims of the U.N. authorities are to be given concrete shape. In fact it would be seen that in terms of the goal of greater equality between the rich and the poor countries the target set by the experts is extremely modest. In the same way the target in relation to the occupational structure means no more than that the present numbers of workers on farms will in no way be increased, i.e., the process of development will take place at a pace which though not reducing significantly the extent of existing crowding on land will at least prevent making it worse.

While the approach of the Colombia plan and the Indian five year plan may be said to be similar, the magnitudes of their proposed per-

formance are of entirely different dimensions. The Colombia plan supposed a rate of annual investment for the five year period which was continuously at a level of between 17 and 19 per cent. of the total national income and of which, roughly one-third was investment on account of Government. Government investment in the plan moves up during the five years from roughly 5 per cent of the national income to about 6 per cent in the last year of the plan. The magnitude of the total investment required in India on the basis of the calculations of the U.N. experts would also be very large. The U.N. experts assume that capital investment at the rate of 2,500 dollars⁴ per new worker employed in non-farm occupations would be necessary, and that capital expenditure for improvement of agriculture may be roughly 4 per cent of the total national income. If it is held that about 70 lakhs of workers may be added to the total working population in India during the period of the five year plan, capital investment for employing all these workers in non-farm occupations would amount to Rs. 8,750 crores approximately during the five years. Assuming a national income of roughly Rs. 9,000 crores the investment for agricultural development may be about Rs. 360 crores per annum. Ignoring any increase in this total national income, we may take the total investment for this purpose in a five year period at five times this amount, i.e., at Rs. 1,800 crores. The total investment for the five year plan period on these calculations would amount to Rs. 10,550 crores which gives a rate of annual investment of Rs. 2,110 crores. This represents about 23.3 per cent of the assumed national income of Rs. 9,000 crores in the initial year. The Indian five year plan makes no calculation regarding the total investment in the whole of the economy during the five years. However, it is clear that the scale of investment contemplated by the plan is very small compared either to the requirements as calculated by the group of experts or the figures projected in the Colombia plan. The total expenditure on capital investment in all directions in the public sector including education and social services amounts to no more than Rs. 1,500 crores in five years of the first five year plan. The expected investment in large-scale industry by private capitalists is put at no more than a gross figure of the order of about Rs. 250 to 300 crores for the five years. These very low figures

4. Dr. Singer assumes this figure of 2,500 dollars for persons engaged in light industrial and allied employments and stresses that this is not an American or West European figure, which would be much higher.

which are expected to be increased by only another Rs. 300 to 500 crores through possible external aid are seen to stand in great contrast to the proposals of the Colombia plan, which must be considered as fairly realistic, the plan having been produced by an expert mission of the International Bank. Incidentally, comparison with Colombia figures also proves that the calculations of the U.N. experts are by no means extravagant. The experts worked with average figures with which to make global calculations. Therefore, the results of their calculations would, in term of percentages, appear much higher for countries with very low levels of per capita income. The Colombia plan assumed total capital formation and investment of the measure of between 17 and 19 per cent of the national income. The rates of investment of the group of experts worked out in the case of India at a little over 23 per cent which is not high if we note that the per capita national income of Colombia is nearly three times that of India. It is interesting to note in this connexion that the Japanese post-war economic plan estimates planned capital formation to be between 23.1 and 23.5 per cent of the national income for each year of the plan, i.e., from 1949 to 1953.⁵

Apart from considerations of magnitude, the direction and structure of the plan require careful attention. The large requirements of resources for development make it imperative that the effort should be in terms of the maximum possible for the Government and the society. This maximum effort may be reached by either leaving the field free to a small dominant group of private capitalists, or by socially directed concentration of the savings and investment effort. The maximum social effort could be made only by imposing a general regime of austerity on all classes and tapping to the fullest possible extent the sources from which savings can emerge; as Dr. Singer has emphasized rapid

5. Following features of the Japanese post-war plan will also be found relevant. 'Although one of the primary aims of the economic recovery programme is to raise the people's standard of living, it is planned at the present stage to put emphasis on the increase of capital formation, with a view to increasing the productive capacity necessary for the attainment a self-supporting economy.... New investment during the five-year period is planned to be concentrated mainly on important industries, such as electric power, marine transportation, coal mining, chemical fertilizer, iron and steel and agriculture. The Government will play an important role in the total investment. The percentage of government investment in the total investment will be 35.8 in 1949, increasing steadily to 41.8 in 1953.'—U.N. : *Economic Survey of Asia and the Far East* 1949, (p. 419).

economic development, in a poor country, also requires a careful direction of all investment according to a carefully drawn scheme of priorities. In all countries in a position similar to that of India the main savings possibilities are few and are comparatively concentrated. There are not many studies of the distribution of savings possibilities. The report on Colombia of the International Bank Mission, however, contains some illuminating data and comment. It is pointed out in the report that personal savings in Colombia formed a small percentage of the total and that, in relation to the size of the sector, the savings in agriculture were small. The bulk of savings out of the current income is supplied by retained business earnings and reserves of various kinds. 'An exceptionally large proportion of Colombia's savings accrues to relatively few people. Likewise a substantial portion of earning is retained by the enterprises which make them.' The Mission adds 'This may not provide the requisite capital for the expansion of more socially beneficial projects in other sectors of the economy and the measures we have proposed may be insufficient.' (P. 610). It may safely be assumed that these features of Colombia's economy are reproduced in an even exaggerated form in India. The bulk of personal savings and savings in most types of agriculture with us also appear to be small. Most savings are made and are possible only in the restricted fields of modern industry, banking and insurance, foreign trade and internal wholesale trade, and, of course, in the large speculative activities of all kinds. These savings are concentrated in the hands of a relatively few. They are largely retained in business and there is no guarantee whatsoever that they would be directed to socially beneficial channels. In these circumstances, it is obvious that a policy which leads to the State acquiring control over the saving potentials in these fields, i.e., over the businesses in which it chiefly emerges, is the only one that can meet the needs of the case. This obviously means a policy of socialization of the most important areas of the fields indicated above. This socialization is made equally necessary by the need of centrally directed investment. A large part of the newly directed investment will have to be in fields of modern business and without social control over these fields, effective progress in them could not be assured; also socialization would be necessary to see that the benefits of planned rapid development are not concentrated in the hands of a few.

Dr. Singer's requirement of present sacrifice also indicates the

need for considerable social control. Present sacrifices if they are to be readily acceptable must have some grounding in equity. Any effort at imposing sacrifice by the State as a preliminary to rapid economic development must begin with considerably reducing existing inequalities in wealth. Socialization of fields where large concentration of wealth or income exists is then an obvious condition precedent. At this stage in the development of political and social ideas in the world, imposition of austerity on the mass of the people by a business class, however 'puritanic,' would be impossible. In the special circumstances of India any regime of austerity which left the business classes to thrive and prosper as before is not likely to be tolerated for any length of time. Therefore, a realistic programme from the point of view of India, if it is to lead to rapid economic progress, is a programme which would be oriented in a direction very different from that sketched for the underdeveloped areas of the world by representatives of the industrially advanced countries.

The large effort necessary dictates a pool of savings and centrally directed investment for all the main lines of development. The structure of the plan must also lean heavily on the side of industrialization, and it must think of industrialization as a long-term, continuous and self-sustained process. That rapid industrialization is the remedy for underemployment in agriculture is a view endorsed by the U.N. resolution on Land Reform. From the point of view of the structure of the programme the most important lessons are those afforded by the post-war planning effort in the Balkans. It is curious to observe that even opponents of the communist regimes in these countries often admit that but for a planned rapid drive the necessary industrialization would never have taken place in them and they hope that when these regimes, which they wish to destroy, vanish, the fact of the industrialized economic structure will remain.⁶

Another thorny problem which a plan of development for India and countries similarly situated must face is that of increasing the production of and the available surpluses from agricultural activity. The problem is already being faced in India. The only fundamental solution is to reorganize and enlarge the unit of production in agriculture. Before the reorganization can be undertaken plans for absorbing parts

6. Cf. Jan Wazelaki : 'The Rise of Industrial Middle Europe,' *Foreign Affairs*, October, 1961.

of the rural surplus population in non-farm occupations will have to be put in operation and certain preliminary reforms completed. These are either socializing or putting into the hands of co-operative organizations the credit, marketing and processing activities connected with agriculture. Only after this is done would it be possible to think of setting up co-operative farming units on any large scale. Planned effort in all these directions obviously means government direction, reservation of the fields for co-operative activity, and perhaps legislation to compel minorities to join a communal co-operative effort.

The needs of both austerity and directed investment lead to a drastic control over foreign trade also. Even the comparatively simple objective that the British economy set before itself, of attaining an export surplus of a given size, required considerable control of both export and import trade. Such control in an underdeveloped area is necessary for a variety of reasons. Firstly, the use of foreign exchange resources has to be carefully planned so that the resources required for the development plan are all obtained. Secondly, measures of austerity necessarily imply reducing to a minimum expenditure of exchange resources on non-essential consumer imports. Exports have to be adjusted to the requirements of the plan in terms of the retention internally of the materials required for the plan and obtaining externally, through sale in adequate amounts of products in which the country holds a strategic position, the necessary exchange resources. During the post-war period, a number of countries producing important materials made efforts to pool all gains from export trade in these materials. The need has also been emphasized of conserving and evening out the supply of these gains for the financing of a development programme, especially by countries the prices of whose strategic exports are liable to considerable fluctuations.

Another important aim of the early stages of the plan would be to attain comparative self-dependence. The needs of development of a large country like India are immense. The process would continue for a long time and with the size of the country and the varied natural resources within it, it should be possible to plan development in a manner that is mutually helpful and largely self-supporting. Attainment of a large degree of self-dependence in a long-term plan of development cannot be too highly emphasized. The experience of the last three decades has shown that it is dangerous to the progress of a plan of

development to depend to any large extent or in any essential feature on international trade of a given volume or direction. Apart from interruptions which result from a global war, the possibilities of which cannot be totally discounted in any present thinking, there are two dangers to be guarded against: (i) current non-availability of foreign exchange and (ii) current physical non-availability of the goods that are required for the programme of development. The ability to buy abroad continuously or import goods from abroad required for the development programme depends on the capacity to raise the required funds, which, in turn, depends upon the power to sell sufficient goods on reasonable terms abroad. This cannot always be depended on. Secondly, in periods such that of the rearmament drive the goods, especially the capital goods required for a development programme, cannot always be available from abroad. Therefore, it is a prudent course to plan economic development in such a manner as to provide, within an early stage of the development plan, for freedom from dependence on essential imports from abroad. Of course, development planned in this manner requires resources of a minimum size and of a minimum variety. India, has, fortunately, adequate resources in both these regards; therefore, to plan economic development in India along other lines than those sketched above is to turn away deliberately from the lessons of the experience of other countries in the recent past, and to stake our future on a gamble on international trade and international progress.

IV

Before going on to consider the problem of external resources likely to be available for economic development of the underdeveloped areas it is necessary to pay some attention to the general reaction to this process on the part of the advanced countries. Most peoples of these areas are today independent and have begun to form their own notions regarding objectives of national policy. These objectives, are, of course, broadly similar to the objectives of all other political States, which are to obtain for their States a political, economic, and cultural position which is on some measure of equality of status with other political States with whom they are in contact. The ultimate objectives of the new political States of Asia, for example, can be framed in no less generous or no lower terms than these. The implications of the new Asian States setting up such objectives have, however, great significance for them-

selves and for the world as a whole. There is little doubt that during the last two centuries the whole world has been dominated more than at any stage of its previous history by a small group of nations belonging to the White races. The circumstances favourable to a continuance of such dominance appear to have ceased. It cannot be said whether the present is merely a prelude to another stage where other groups will dominate. However, in the circumstances, all, especially the States that have newly won independence, must strive to gain a position for themselves which will free them from the threat of domination. Till a comparatively small number of decades ago the superiority of the European Whites was complete and that they were destined to rule the world was taken for granted. In recent years the claims made on behalf of the Whites have not appeared as clear as before and the behaviour of the Whites towards the coloured has, in particular respects, been somewhat modified. There is no reason, however, to believe that in fundamentals the situation has greatly changed. The present position and future progress of Asian nationalities presents a challenge to the older concepts of White supremacy and the political and economic assumptions on which they rested.

The situation has an economic as well as political and social aspect. It is no doubt true that in the long run everybody should benefit by the full development of all parts of the world. However, as happens in many other economic discussions, two views can be taken of a process which while raising the total product also brings about a radical redistribution of it. There is no doubt that in a large measure the rapid progress in industrial development made by modern European countries and their resultant prosperity was due to the control over resources of underdeveloped areas exercised by these countries. That the standards of living in the imperialistic countries are likely to suffer because of the loss of colonies has been widely recognized and is now admitted by most. For example, the Liberal-imperialist British newspaper *Economist* writing of the possible loss of Malaya by the British says: 'The chain of direct and indirect consequences, flowing from such an event would be far greater for Britain, for the standard of living of its people and for the whole Western position in Asia than is generally realized.'⁷

Obviously, the end of colonialism cannot be expected to be wel-

7. 'Consulting on Asia,' *The Economist* 24 November, 1951. Italics mine.

comed by the imperial powers. The U.S.A., which perhaps played some part in the decisions made by many imperial powers in the immediate post-war period that their position in Asian countries was generally untenable, has in recent years inclined to other views because of the needs of the anti-communist strategy. It has been forced, as in Malaya and Indo-China, to countenance and help actively the retention of their position by imperialist powers. Moreover, though for the bulk of Asia an active colonial regime is a thing of the past, the case is very different with Africa. Almost the whole of that continent is in the stage of colonialism and the withdrawal of colonial powers from this field is bound to be a gradual process involving some time.

Even where a modern industrial country does not hold sway over an underdeveloped country as a colony it may exercise such control over its economy through, e.g., exploitation of its key resources that, for all practical purposes, the relations between their economies may be those of a colonial with a metropolitan economy. The most important cases in point arise out of the exploitation of oil resources. The oil concessions operated by industrially advanced countries in relation to fields situated in the underdeveloped areas have been in recent decades progressively contributing larger and larger incomes to the underdeveloped countries in which they are situated. However, the exploitation by foreign concessionaries means that the oil resources contribute, in the main, to the economic strength of the exploiting country. The economic strength and bargaining power as well as the complex structure of trade, transport and industry raised on the basis of oil resources all belong to the exploiting country and not to the country in which the oilfield is located. The dispute in relation to exploitation of oil is not a question of proportionate division of incomes but a fundamental one as to who will obtain all the important advantages flowing from ownership and exploitation of oil. The sedulous attempts of exploiting powers to draw a red herring across the trail by pointing to large or increasing monetary benefits now fail to conceal the true nature of the struggle from even the ignorant populations of these countries.

The history of the relations of the U.S.A. with the Central and the South American countries is another important illustration and may provide useful material for a study of possible changes in the balance of such relations and the possible pattern of continuous readjustments. It is obvious that the efforts of the underdeveloped countries to free them-

selves from dependence on industrially advanced countries and to develop and exploit fully their own resources may result in some diminution in the economic strength and in the incomes of the richer countries of today. The possession of colonies and of concessions for exploitation have important tangible results; their loss is bound to be felt seriously by, at least, some of the European countries who, but for the peculiar political developments of the post-war period, would have made a greater fight for their retention.

It is difficult to judge how, apart from these aspects, the general developments of the underdeveloped countries would affect the economic position of the present industrially advanced countries. There is one apprehension that is already felt and expressed. It is a commonplace of thought on the subject that a rapid economic development of underdeveloped areas may change the terms of trade between agricultural and industrial products in such a manner that economies built on the basis of bulk imports of raw materials would find themselves under great strain. There are other ways in which through affecting the prices or the availability of particular materials the advantages enjoyed so far by the European countries in relation to tropical and colonial products may vanish and this might affect the structure of their economies and their prosperity. Such are some of the general arguments for believing that the economic consequences of a rapid economic development of the underdeveloped areas may not be all to the advantage, at least immediately, of the present industrially advanced countries and that therefore it would be too much to expect them to assist generously such developments.

The U.S.A. are a possible exception to what has been said above. The internal resources of the U.S.A. are both rich and varied and though the country does derive some advantage from its exploitation of, e.g., oil resources in different parts of the world and from the general tutelage exercised by it over Central and Southern American economy the loss of these in due course may not affect significantly the material prosperity of the people of the U.S.A.

The political and cultural consequences of a rapid economic development of the underdeveloped areas may also be important. Many of these areas, especially those in Asia, are heavily populated and if with rapid economic development the economic and political strength and status of these countries is greatly raised an almost revolutionary change will have come about in the present balance of political power in the

world. For about 200 years the European peoples have been used to thinking of themselves as the natural ruling powers. It has been with great reluctance and with strenuous opposition at each stage that they have admitted nations of the other races to a position of even theoretic equality. If now these countries, some of whom are extremely populous, attain to a status of something like real equality the mental adjustment required of the European peoples in accepting this fact would undoubtedly put them under great strain. There is little doubt that this is partly the explanation of the great attention paid by the Anglo-Americans to the population problem of the Asian countries. 200 years ago the population of the world was largely non-white; within the last 200 years, the white peoples have grown rapidly in numbers as a result of having occupied large areas of the world. In many of these areas colonized by the Europeans, older populations have been almost completely wiped out as in the present U.S.A. and Canada, Australia or New Zealand, and when in these areas a non-white element has been admitted it has been only on the status of and for use as slaves or serfs.

The racialism of the Whites has been incorporated in and expressed through many institutions and legislative enactments. At one extreme stands, no doubt, the South African segregation policy. The sentiment appears in the extreme form in South Africa only because the sense of fear under which the South African Whites labour is so much the more immediate, constant and large. The immigration laws of the U.S.A. and Australia are, in principle, based on concepts no different from the South African policy of segregation. If the economic development of the whole world was a single indivisible process, the movement of population from areas in which the productivity of labour was low to those where it was high would be the obvious first step to bring about increased prosperity. That not only can such steps not be taken but that they should be considered so impracticable that nobody should find it worth while even to mention them on an international plane is itself an adequate commentary on the present distribution of the political power in the world. There is no doubt that countries, especially like Australia, look on this matter of economic development of underdeveloped areas as something like a race against time; their constant apprehension being as to what would happen if large areas of their country are still unpeopled when coloured peoples of Asia have become strong enough to voice their real sentiments in the matter and to exercise their power accordingly.

V

The above discussion would indicate that there is no reason why the rich and developed countries which belong almost entirely to the West European group, directly or indirectly, should take any interest in the rapid economic development of the underdeveloped areas. In actual fact also, before 1940, none of the rich countries took an interest in the development of the underdeveloped countries, except as complementary economies. The problem of the availability of external aid for the underdeveloped countries, has, therefore, to be looked upon as entirely a post-war phenomenon. The communist countries claim to have solved the problem of the rapid economic development of underdeveloped areas. They claim to have actually developed many such economies without significant external aid. Whatever the extent of their actual achievement in this respect, they are seen to have attained an impressive political status in the world. They are also supposed not to entertain a racial bias. Their appeal to peoples of the underdeveloped areas is obviously great. It is in the context of counteracting this appeal that the aid policies of Western countries must be judged.

This would explain why in spite of some immediate considerations to the contrary the rich countries are disposed at present to help the underdeveloped areas. What are likely to be the terms and what the magnitude of such help? In this connexion the views of the representatives of the developed countries, indicated previously, have relevance. They illustrate what in effect is a universal phenomenon, that thought in economic policy in a society is closely related to its immediate experience and to the comparatively short-term economic interest of that society. As the experiences and immediate interests of the developed and underdeveloped areas diverge greatly, it is not necessary for us to take seriously their thinking on our problems. I have shown above that the programme indicated by them is neither appropriate nor adequate. It is, however, pertinent to enquire whether the terms and extent of the external aid available are likely to depend on the nature of the policies followed by the underdeveloped countries. The problem may be considered separately for the different sources of available aid.

Before considering future prospects, reference may be made to discussions in international authorities on recommendations regarding external aid made by the U.N. experts. The points of open disagreement

were the recommendations of U.N. experts regarding the creation of a new and independent International Development Authority and the making of grants through such authority to the underdeveloped countries for certain specific types of non-self-liquidating expenditure. The division, outside the Soviet Bloc, was as among representatives of the developed and of underdeveloped countries. In opposition to the recommendations of experts it was urged that a new International Authority was not necessary and that the experts had ignored the work that was being done by the existing international agencies and that while it may be true that at least some underdeveloped countries stood in need of grants the resources available today with the developed countries for the purpose were not adequate for the functioning of such authority. All the developed countries, other than the U.S.A., pleaded that in view specially of the rearmament expenditures they had no surplus resources and those that they had were fully required for their existing commitments in their own colonial or commonwealth areas. The United States Government took the view that there was no justification for setting up an International Authority unless it was in fact international i.e., unless a substantial part of the funds of that authority were raised by contributions from a number of Governments. There was, in its opinion, no point in creating such an authority if almost all the funds, as appeared certain, would have to come from U.S.A. itself.

The ultimate decision taken by the General Assembly was the result of continuous pressure exercised by representatives of the underdeveloped countries. The Economic Committee of the Economic and Social Council, entrusted with the task of preparing a draft resolution for consideration of the Council, had emphasized the need for the underdeveloped countries providing appropriate conditions for an inflow of foreign capital, especially private capital, had drawn special attention to the non-availability of funds for grants and to the improved terms of trade of the underdeveloped countries which made grants unnecessary and had merely asked various organizations to keep the question of grants under consideration. The draft resolution of the Economic Committee came under severe criticism in the Council and was substantially modified in it; it underwent further change in the Assembly. It is, however, doubtful whether this modification of the draft resolution as originally sponsored by the developed countries will prove of any concrete use.

Consideration of the measure of likely assistance forthcoming from

external sources for the development of underdeveloped countries must be made without much reference to resolutions passed by international authorities. We may begin the consideration by passing under review what has already been done in this behalf. During debates in various U.N. authorities the charge was often levelled against the U.N. experts that they had failed to pay due attention in their report to the work being done or already accomplished by existing international authorities. No doubt, a large number of international authorities have been brought into existence since the war. Some of these such as the U.N.R.R.A., which had notable achievements in the work of rehabilitation to its credit, have been wound up. Most of the others such as the W.H.O., F.A.O. or the much older I.L.O. are all specialized agencies devoted to work in particular fields. They perform in their own fields useful service in bringing about international agreements, exchanging ideas and giving advice; their contribution to a programme of economic development cannot, however, go further than helping in the formulation or definition of particular aspects of the programme and rendering some technical assistance in its execution. The work of these agencies is also by no means confined to or concentrated in the underdeveloped areas of the world. The one recent activity undertaken on an international level and directed specifically to the economic development of underdeveloped countries has been that of technical assistance. Here again the assistance given is in the shape of the services of experts in particular fields; this could be fruitfully utilized only by a country which had previously formulated a plan of integrated development and which had the resources with which to implement it. The Technical Assistance Board set up by the U.N. has itself begun to realize this fundamental limitation on the scope of its activity.

Three elements are essential in any successful programme of economic development of an underdeveloped country. These are (1) state of internal preparedness, social and political, (2) the formulation of an integrated plan, (3) resources required to fulfil the plan. Existing international agencies could do little regarding the first requirement; the definition of the scope of existing specialized agencies and the development of their activities has also made clear that their utility in the other two respects was confined to helping the formulation of plans in particular fields and supplying the services of some expert personnel in them. The international agencies are, of course, not to blame for the manner

in which their scope has been defined and the consequent limitations on their usefulness in the large task of economic development. Equally, U.N. experts were also not to blame for the fact that in view of the way in which they had analysed the problem and defined its magnitude they found no occasion to refer to the activities of these agencies.

The above has been written without reference to the international agencies which have command of general resources and could, in appropriate circumstances, supply them to individual countries. These are the International Monetary Fund and the International Bank. The resources with the International Monetary Fund are available mainly for meeting short-period balance of payment difficulties and could not be counted on in a programme of long-term development. The International Bank, though its activities are not confined to underdeveloped areas, was on the contrary specially set up to provide investment resources. The U.N. experts, therefore, made special reference to the work performed so far by the International Bank and the part it could and should play in an international programme of economic development. The experts were somewhat critical of the extent of the assistance that the International Bank had been able to give so far. Whatever the circumstances responsible for the fact it cannot be denied that the actual performance has been disappointing. At the same time the experts noted that there had been, on the part of the International Bank, a reorientation or reinterpretation of policy and an attempt at quickening the pace and recommended that a definite target should be set up and reached.

It should be noted that the recommendation to set up an International Development Authority does not imply an underestimation or depreciation of the role of the International Bank. The International Development Authority is required because the Bank cannot perform a number of vital functions essential in formulating and implementing an international development programme. The International Bank has no doubt been driven by necessity to assist countries applying for loans to formulate plans. However, the giving of such assistance or advice is not a primary function of the International Bank and it could undertake the function only in particular circumstances and only to a limited extent. It could not initiate, even in an indirect manner, the formulation of integrated development programmes in individual countries or give the assistance required in many forms in the various stages of such formulation. The International Bank could not, also, undertake the co-

ordination of plans or constantly help in their implementation, especially in times of international difficulties. Also the International Bank did not desire to have anything to do with the distribution of grants or with even the administration of loans at concession rates. The International Bank held the view that its activities should be confined to banking proper and that any admixture of other functions would be undesirable from all points of view. Taking an integrated view of the whole process of development and assisting in it at all stages is a task which neither the International Bank nor any arrangement of coordination between various international agencies could carry out. If the nations of the world did really consider the development of the underdeveloped areas the most urgent problem of the present, it could be adequately dealt with only by a special authority created for the purpose. Such were some of the considerations which led the U.N. experts to recommend the setting up of an independent International Development Authority.

It has been pointed out above that aid from international agencies other than the International Bank was not likely to be substantial. The views of the international agencies also revealed large differences of opinion among themselves. At one extreme we have Dr. Ezekiel of the F.A.O. who considered that the ability of the underdeveloped countries to direct and control far-reaching programmes was limited and who professed belief in a programme chiefly of mass education. On the other hand, there were some representatives of the International Trade Union organizations who thought the U.N. experts had paid insufficient attention to problems of the workers' standard of living and there was also the complaint that the U.N. experts had not paid sufficient attention to the problem of underemployment. It was only the International Labour Office and the International Organizations of Trade Unions that supported wholeheartedly the approach of the experts and their estimate of the magnitude of the effort involved. This difference in reaction may have been due to the fact that these labour organizations were in touch with conditions of workers and the poorer classes in the underdeveloped countries and not merely with investment markets and leaders of private enterprise. The reactions shown in the official representation of the International Bank are highly interesting. The International Bank fully agrees with the need for the internal political and social changes which the experts advocated. It also supported the idea of an integrated plan of development and felt that if grants were available for non-

self-liquidating expenditure the security of the loans made by the International Bank would be greatly strengthened and the terms and amounts of the loans offered by it could be improved. It did not admit that much more could have been done by the Bank in the past or that it was practicable to set up a target of annual loan amounts to be reached within a specific number of years.

The International Bank is no doubt strongly in favour of development taking place through private enterprise. In many plans of development, as, for example, that in connexion with Turkey, it has deliberately put in the forefront of the programme the development of private industry and it may safely be assumed that the check to the progress of nationalized industry in Turkey was connected with the large American aid and with help from the International Bank received by that country. It would appear that in other countries also where the International Bank has helped in preparing the blueprint of a development programme, emphasis has been placed on working through private investors. However, it may be that the International Bank would not necessarily refuse or grossly curtail help if other circumstances determined or indicated that help should be given. A notable instance is that of Yugoslavia. The International Bank has begun to grant development loan funds to the country even though it is known to profess a communist ideology in matters of economic development, though even in Yugoslavia a decided change in direction has been alleged following the help received.

Assistance from governments of individual countries, either directly or through their own agencies set up for the purpose, and assistance from private individuals in foreign countries are the other sources of external aid. The Export-Import Bank of the United States of America is an important example of an agency set up by an individual country. The U.N. experts have referred appreciatively to the work of this Bank. In fairness to the International Bank it must be observed that the Export-Import Bank operated in conditions which are somewhat peculiar. The Export-Import Bank administers resources set apart for the purpose by the Government of the United States of America and, unlike the International Bank, had not to pay any attention to reactions of its policy in making loans on the international capital market. Secondly, the administrative organization of the Export-Import Bank was such as to make it very responsive to the policy of the United States Government

and highly elastic in its terms and conditions. The International Bank operated necessarily in a more rigid framework, and there were severe limitations on the possible variations and elasticity in its terms or methods of doing business. The Export-Import Bank was in brief an instrument of policy of an individual government, while the International Bank was an international agency. However, this very difference made it difficult to place as much reliance on an organization like the Export-Import Bank in a programme of long-term international economic development as on the International Bank. While the Export-Import Bank had in recent years done some useful work the total amount of assistance made available through it had not been large.

The help given or to be given by foreign Governments stands in a class by itself. At the present there is no programme of aid in Asia comparable to the Marshall aid for European countries. It is likely, however, that in the near future offers of substantial help may be made by the Government of the U.S.A. to some countries like India. These offers of aid will, most probably, be directed towards specific objectives and programmes. Help from the U.S.A. or from any foreign Government is likely to depend much more largely on political and military considerations rather than on considerations of internal economic policy of the recipient country. If the Government of a country, say, India, takes any large steps towards socialization or drastic control of foreign trade, the Government of the U.S.A. may not entirely relish the step, but it is not likely to revise its aid programme merely on that account. Receipt of aid from the International Bank or from the Government of the U.S.A. will thus mainly depend on the political situation. It is equally clear that aid from the International Bank or from the Government of the U.S.A. will be available after a country embarks on an economic programme which they do not approve, only if political circumstances make the giving of that aid imperative. This is tantamount to saying that such aid may be available in particular circumstances but that it cannot be completely depended upon. Experience of other countries who have received American aid shows clearly that the aid always has, as such aid received by one Government from another must always have, some political implications. Action of the U.S.A. in relation to the embargo on trade with China or the case of the agreement obtained on the Japanese Peace Treaty are important illustrations of what is likely to happen. The mechanics of political action in the U.S.A. are

also very peculiar and it is not certain that aid programmes in a given direction launched at a particular time will always be kept going year after year. While, therefore, it may always be perfectly honestly stated both by the donor as well as by the recipient that no strings or conditions are attached to receipt of particular aid, the political relations with the giver of aid, of a constant recipient or of one who expects a stream of gifts in the future are necessarily of a type which must shackle political discretion in a significant manner. It is specially important to observe that as matters stand there is continuous likelihood of a sharp difference of opinion on important issues between the U.S.A. and India. The peculiar position that India occupies, its tradition and history and the evolution of its foreign policy in recent times all point to possibilities of recurrence of these differences. In the circumstances, while it would be unnecessarily foolish to refuse any specific aid that is currently offered or given, only because it may give rise to possible embarrassments later, it would be highly unrealistic to continue to count on any receipt of such help or to make a programme of development dependent in any essential respect on receipt of help from a foreign Government such as that of the U.S.A.

At this stage a word may be said regarding the position of the Soviet Bloc. It must be clearly recognized that the Sino-Russian group of countries are among the poorer countries of the world and most countries within the group are undergoing or awaiting development. In particular, the development of China will require specially large resources. Therefore, even if India adopts parts of ideas on planning and economic development which have been evolved largely in the communist countries, it should not expect any substantial help from this group of countries. Not only are the surplus resources required for giving such aid not available with these countries, but also the political implications of receiving such aid from them may be found to be even more embarrassing and more inconsistent with our past and present than those of receipt of aid from the U.S.A.

We may lastly consider the possibilities of private investment by foreigners. It is obvious that such private investment effort is compatible only with a plan drawn on the lines favoured by the advanced countries. The implications for economic policy of encouraging private foreign investment for internal development are many. Investment effort by foreigners is, in the first instance, fairly costly. The minimum re-

turns obtained and expected on such investments is of the order of 15 per cent or so. From the point of view of generating investment surplus from exploitation of resources, this is a rate of return which is very high and could be given only by a country which finds no way of bringing about development by other means. Secondly, encouragement of investment by foreign private entrepreneurs may influence long-term economic policy. It may imply the entrenchment of domestic private effort for periods and in conditions in which alone the foreign investor will choose to invest. The encouragement to foreign private investment may thus involve a commitment relating to domestic policy which is in fact a long-term commitment.

In the context of modern conditions it is also clear that increased foreign investment effort strengthens not only indirectly but also directly the position of domestic private enterprise; this is because whether compelled to do so by local Government regulations or not, foreign capitalists nowadays seek everywhere to exploit resources chiefly in collaboration with groups of local capitalists. The privileged position and superior bargaining status of foreign capitalists in relation to the national government thus fortifies by association with them the position of domestic capitalist classes also. In effect, therefore, encouragement to foreign private capitalists is tantamount to wanting to or guaranteeing to maintain a private enterprise economy internally for an indefinite period of time. Such a policy may fit in with the aims and the scale of efforts contemplated in the five year plan in India. It would, of course, be incompatible if any more vigorous or more radical measures are taken for development. External capital from private sources could not, therefore, be counted on in such a programme as a significant source.

It is difficult to estimate the magnitude of the help that might be available to any country from external sources. However, making a rough guess, the external aid that India may receive during the next decade may in favourable circumstances be put at from Rs. 100 crores to a maximum of Rs. 200 crores per annum. In a plan where the total investment in the public sector is no more than Rs. 300 crores per annum, external help of this magnitude will prove important. Also, in such a plan help from all sources, including, foreign private investment, can be drawn upon and help from the International Bank and the Government of the U.S.A. may be liberal and certain. The other approach which I have indicated as providing the only solution to the problem would

require an initial minimum planned investment by or through Government of the order of about Rs. 1,000 crores per annum. In such an approach utilization of private investment capital from abroad will not be possible; also in it, in comparison with the requirement of internal effort, the available foreign aid could not be proportionately large. Hence, though foreign aid of the dimension of even Rs. 100 crores per annum can never be ignored or chances of obtaining it neglected by a country like India, its absence would not affect the plan fundamentally.⁸

VI

The final decision regarding the approach to the plan and the magnitude of the effort required will ultimately be arrived at in relation to circumstances other than the availability or non-availability, or the magnitude of foreign aid. The decision will be taken by the Government of a country in relation to what it thinks is possible and necessary. If small efforts of the type of the Indian five year plan are all that the situation needs, the ruling classes are not likely to do anything more strenuous and risky, and may then, incidentally, benefit from all types of foreign help. The masses in India have lived in great poverty for generations; there is no reason why they may not continue to live in equal poverty for more generations. There may be no special urgency about economic development and no particular reason why economic development should not take place in India through private enterprise by increasing concentration of economic power and the sacrifices imposed on the poor. If the people of a country continue to stand a regime of that sort, there is no particular reason why it should be disturbed. If, however, internal pressures make it necessary for Government to embark on more difficult policies, the possible cessation of foreign aid is not likely to deter them from the effort. Absence of foreign aid would only mean that the efforts would have to be more intense, more well-planned and the sacrifices larger than might otherwise have become the case.

Whether foreign Governments, in this instance chiefly the Govern-

8. In this discussion I have treated loans and grants from foreign Governments together. The justification for doing this is that ultimately the bulk of the funds for all purposes come from the U.S.A. and whether aid is in the form of an outright grant from the beginning or of a loan to be repaid over a long period the difference in the early stages of development to the plan will not be significant.

ment of the U.S.A., extend help or not—and the conditions on which they extend it—is entirely their concern. Indians have no reason to hold any particular set of expectations in the matter. It does, however, appear unnecessary for the Americans to give the impression that in giving aid they are favouring a particular approach to the problem of development and frowning on the other. The great emphasis laid by representatives of advanced countries on private enterprise, on foreign investment capital and on the need for recipient countries making conditions easy and favourable for the investment of foreign private capital has undoubtedly created an unfortunate impression. American spokesmen do not adequately realize the great differences in conditions and dispositions between their country and the Asian countries. Even the Europeans find it difficult today to accept all American ideas on economic policy. The following quotation from an article in the *Economist* (15 December, 1951) on a conference of European industrialists in New York addressed by Americans will be found illuminating :

It was beyond dispute that the visitors had come to the most prosperous area of the world from one not so prosperous. The Americans were well-entitled to assume that explanations of how the United States had achieved such prosperity, coupled with some advice on the methods by which the same admirable results might be reproduced elsewhere, came within the definition of helpfulness.

This from a British liberal newspaper is significant; for, the British have exhibited during the last 150 years similar helpfulness in relation to the Asians and find only recently the role reversed in relation to the Americans.

If the British and the West Europeans find the cry of more competition meaningless and unhelpful, it may well be that many people in countries where modern private enterprise has been seen in some of its more unsavoury aspects may consider the American attitude and insistence as being worse than merely unhelpful. For many Indians, it is difficult to understand why a plan of integrated development which imposes a uniform regime of austerity should on account of its rejection of the concept of a private enterprise economy be considered less democratic than one which protests about welfare and equality, but in effect maintains a regime of gross inequality and the denial of welfare. Also, it is difficult for many of us to understand how to think in terms of a socially integrated planned economy is necessarily more wicked than

maintaining a system which avowedly works on the dictum : 'The race is to the swiftest and the devil take the hindmost.' These are, of course, all large disputes in which sharp differences of opinion are bound to arise and each is likely to judge according to his own experience and disposition. What I think is unfortunate is that the American help potential should, in this dispute, appear inextricably mixed up with one approach to the problem. American aid in Asia is available today largely to regimes which have been judged by the peoples of Asia as being essentially undemocratic, socially, economically and politically. The emphasis on private enterprise everywhere is interpreted, at least by many in India, as reflection of a policy which on the plea of strengthening the democratic front could only lead to bolstering up undemocratic regimes. This is a matter connected not so much with the quantum of economic help as with mutual understanding and good relations and is, therefore, one on which an Indian may express a frank opinion, thus far.

For us in India the moral of the considerations set forth in this article is clear enough. Our Government has guaranteed the maintenance of the present field of private enterprise and Finance Ministers have declared that they cannot increase direct taxation further or curtail imports. Therefore, the maintenance of the present standards of living of the rich in India is assured and no diminution can take place either in the economic resources concentrated in their hands or in the fields open to them for profitable activity. The magnitude of investment contemplated by Government in the public sector is relatively no larger than the investment made by the British when they were building railways or canals. Government will also find it impossible to increase significantly the burdens on the poorer classes or to generate general enthusiasm. The only new factor that has recently emerged is the availability of some foreign government aid on very easy terms. Evidently, the Indian Government expects the economic development of India to take place at the needed rate without any sacrifice on the part of the rich and without any special effort on the part of the Government. This is rank delusion. India is one of the oldest, biggest and poorest of the countries of the world; its problems are among the most complex and its resources among the slenderest. In such a country no rapid economic development can begin without a social revolution which changes radically the existing distribution of economic power and income; and such development will involve the imposition of great present sacrifices on all and will

call for patience during the long period which will elapse before the fruits of development accrue. The need for social cohesion and solidarity is great and the situation demands, in a high degree, intelligence in planning, honesty and ability in execution and discipline within the community. It is high time thinking men within the country woke up to these realities of the situation.

PEASANT-OWNED SUGAR FACTORY IN BOMBAY STATE ***A Unique Experiment in Co-operative Enterprise**

[In a casual conversation which I had with Prof. D. R. Gadgil, Director, Gokhale Institute of Politics and Economics, Poona, he mentioned to me the peasant-owned sugar factory, an account of which he has given in the following article. I felt that this was a most unique experiment in co-operative enterprise in this country with considerable possibilities of extension to other regions. I, therefore, requested Prof. Gadgil, who also happens to be the Chairman of the Board of Management of this society, to contribute an article on the subject to the Indian Labour Gazette and he kindly agreed to do so. The Editor naturally takes no responsibility for the views expressed in the article,—Editor.]

Some idea of the historical background will be found instructive in assessing the effort made by cultivators to form the Sugar Co-operative Society at Loni in the Ahmednagar District of Bombay State. Before the canals were constructed the region in which the area of the Society falls was dependent entirely on seasonal monsoon rains, and was a region of somewhat large holdings, a predominantly dry cropping system of cereals and oil seeds, and was subject to periodic failures of rains. The construction of the canals made possible a transformation in conditions of agricultural production. However, the local peasantry had neither the knowledge nor the resources to bring about the transformation; and no steps were taken by Government towards developing local agriculture or industry beyond constructing the canals and their distributaries. The beginning of irrigated agriculture, especially sugarcane farming, had, therefore, to be made by immigrant agriculturists from neighbouring districts acquainted with irrigated farming. The local agriculturists were slow to follow the example of the immigrants and were, in a number of cases, content to give lands on long leases to them,

* Indian Labour Gazette, May 1952.

on what appeared to be, very favourable rentals. Sugarcane farming made considerable progress in the area in the boom following the end of the first world war, but the break in g u l prices in the later twenties brought this progress to an end and even brought about some retrogression. Because of this conjuncture of circumstances Government found that water was not taken for irrigation as freely and rapidly as it had hoped and expected, and the income from water charges continued low. Following the recommendations of a Committee which examined this question Government decided to invite sugar factories to establish themselves in the region by grant of special concessions. The special concessions offered by Government coincided with the grant of protection to the sugar industry and this entirely changed the course of economic development of the region. G u l prices also picked up after 1935 and the region and the sugarcane farmers in it experienced continuously growing prosperity. The local peasantry, to the extent that it had learnt sugarcane farming by now, shared in this prosperity; but not to the extent as some of the immigrant farmers who had come early, acquired large lands and accumulated considerable capital resources or the sugar factories who had benefited enormously from the concessions and the very favourable times brought in by war and post-war years. The local peasantry had also greatly suffered from the violent fluctuations in g u l prices for the past 30 years. They were thus convinced that a co-operative sugar factory which would assure to them a continuous market for the sugarcane they grew, at an even level of prices from year to year, was essential for their exploiting fully the benefits of their region having been irrigated. There was also another possible motive at the back of the movement for the establishment of a co-operative sugar factory. This was a feeling that the establishment of the factory may result in obtaining extension of area under canal irrigation and concessions in irrigation rules similar to those enjoyed by the sugar factories. In this respect, however, bitter disappointment was to be experienced by the promoters of the factory.

The first move towards the establishment of the factory was made in a Conference of Irrigators in the tract which adopted a resolution in favour of sponsoring attempts to establish co-operative sugar factories in the region. The actual steps were however, taken only in 1947, when leading cultivator-co-operators of the particular area, in discussion with officers of the Bombay Provincial Co-operative Bank, formulated a tentative scheme and began to collect deposits towards share capital. A

sum of nearly Rs. 2 lakhs was collected in a short time, but not much progress could be made without a formal registration of the Society. This was found possible only towards the beginning of 1949. In March of that year the Society was registered and as provided in the bye-laws, the first Board of Management for the Society was nominated by the Registrar for the first three years after consulting the promoters and the Bombay Provincial Co-operative Bank. As soon as the Society was formally registered the Managing Director who holds a central position in the constitution and working of the Society and a Chief Engineer were appointed and efforts to acquire suitable lands and machinery for the factory were set on foot. Initially, efforts were made to acquire a second hand plant to enable production being started in 1950-51, if possible. No such suitable plant was available ; in the meanwhile, there emerged the possibility of acquiring a new "SKODA" plant of 450 tons capacity, which was approximately the size of plant required by the Society. An order was placed immediately for this. Devaluation came in just before the order was finally accepted and this involved some increase in the cost of machinery ; but the order was finally placed and machinery, whose despatch was specially expedited, began to arrive in India towards the beginning of May 1950. All the machinery reached the factory's site in June 1950, during which month the foundation stone of the factory building was laid. The erection of the machinery and the building of the factory together with the lay-out of roads, temporary quarters, etc. were taken immediately in hand and after remarkably rapid progress, the first bag of sugar was manufactured in the last week of December 1950. The total production during the season 1950-51 was 37,000 bags of sugar. In the season 1951-52 the factory started operations towards the end of November and will, it is anticipated, carry on till about the middle of May ; the total production during the season is expected to exceed 65,000 bags of sugar.

The region in which the Society is located is the region under command of the Pravara Canals System (District Ahmednagar, Bombay State). The area of operation of the factory has been defined as a number of contiguous villages—39 in number—watered by certain distributaries of the Pravara right and left bank canals. The area is somewhat large and the factory is in extreme cases as far as ten miles away from the sugarcane fields of members. The bulk of the sugarcane crop of members, however, falls within four miles of the factory. The Society

has two classes of members—producer members and non-producer members. The producer members are all growers of sugarcane with a minimum of one acre under sugarcane within the area of the factory. Each producer member, with his application for shares, also signed a form of contract by which he bound himself to grow sugarcane according to the directions of the Board of Management and to deliver all the sugarcane grown by him to the factory for being manufactured into sugar at prices fixed by the Board of Management. Under the bye-laws, the Board of Management has also further general powers for directing proper cultivation by members and powers over their general agricultural activity and the disposal of crops by them.

The class of non-producer members was introduced to provide for membership by Co-operative Societies, and was thought of initially, as a possible way of obtaining the needed share capital from outside the class of cultivators. From the very start, however, the promoters were determined, as far as possible, not to call in capital resources from private individuals outside the class of producers themselves. It might have been necessary to think of obtaining share capital in substantial amounts from the class of non-producers, if other means of raising finance had not been found possible; on the other hand, it is doubtful whether in the early stages of the Society, with an uncertain future and no secure financial backing, outside capitalists would have bought shares of the Society to any significant extent.

The total Authorised Capital of the Society is Rs. 25,00,000 divided into 5,000 shares of Rs. 500 each. The bye-laws do not contain any formal stipulations in the matter, but the number of shares initially bought by a member was ordinarily in proportion to the number of acres of sugarcane cultivated by him. It was expected that for each acre of sugarcane cultivated by a member one producer share of the Society should be bought. There was, however, an upper limit for the holding of shares. This was Rs. 10,000 which could, with a special permission of Government, be increased to Rs. 15,000. In the early stages it was found necessary to ask for exceptions to be made; and shares worth Rs. 15,000 were placed with a number of share-holders most of whom were amongst the directors nominated to the first Board. At this stage increase in the share capital actually paid up was of the greatest importance, and an early payment of the subscription could be brought about only by asking for an exception to be made in the case of all the more substantial

among the supporters of the idea.

In the earliest stage not much more than Rs. 2 lakhs had been raised by subscription by members. The initial scheme contemplated a capital outlay of Rs. 25,00,000. It became clear to the Board of Management at the very outset, that the actual cost was much more likely to be in the neighbourhood of Rs. 32,00,000 to Rs. 36,00,000, and steps had to be taken to arrange finance accordingly. Efforts were in the first instance made, to place shares amongst producer members to the maximum possible extent and to place as many non-producer shares as possible with Co-operative Societies. The target was placed at selling shares to the value of Rs. 10,00,000 to producer members and to Co-operative Societies within a year of the registration of the Society. This was as high a target as could be imagined and it was clear that even when shares to the extent of Rs. 10,00,000 were applied for, the paid-up amount in respect of these shares could not exceed Rs. 5,00,000 to Rs. 6,00,000 before the factory began to operate. It became, therefore, necessary to look in other directions for attaining the minimum necessary of owned capital for the Society. A representation was made to the Government of Bombay dwelling on the unique character of the experiment, its vast size in relation to the resources of the cultivators and the great potential benefits of its successful operation to the co-operative movement in all directions, combining as the experiment did, co-operative management of a factory and co-operative regulation and direction of farming. It was a lucky circumstance for the Society that the Finance Member who also held the portfolio of co-operation was that leading and veteran co-operator, Shri V. L. Mehta. Government agreed, within a few months of the application, to subscribe to the share capital of the Society a sum equal to the paid-up capital by members of the Society but not exceeding Rs. 6,00,000. The conditions prescribed by Government made doubly important the efforts described above to secure paid-up capital.

With the subscription by Government of Rs. 6 lakhs to the capital, the Society had in early 1950 a share capital of nearly Rs. 15 lakhs subscribed of which Rs. 12 lakhs was paid-up. At this stage the Industrial Finance Corporation was approached for a loan of Rs. 20 lakhs. It was then expected that the total expenditure upto the time of the commencement of the manufacture of sugar would not exceed Rs. 36,00,000. The Industrial Finance Corporation treated the application of the Society very sympathetically and granted the loan within a few months.

In all stages, the support of the Bombay Provincial Co-operative Bank proved of the utmost value. It is the chief source of supply of working capital but in the initial stages it helped in other ways also. There was necessarily some lag between the resolution of the Industrial Finance Corporation sanctioning the loan of Rs. 20 lakhs and the completion of all formalities before the loan could be actually received from the Corporation. Machinery had, however, to be paid for in the meanwhile and expenditure on erection and construction to be incurred. This difficult period was bridged over by short-term accommodation readily granted by the Provincial Co-operative Bank. Moreover, as often happens, it was found that our initial calculation of Rs. 36 lakhs was somewhat of an underestimate; ultimately the total expenditure on the block came to nearly Rs. 41 lakhs. Here again, the gap in the initial stages was met by a temporary advance from the Provincial Co-operative Bank; as the fixed assets were mortgaged to the Industrial Finance Corporation and as there was yet no production of sugar this advance was based on the personal security of the producer members of the Board of Directors.

On account of the newly introduced system of a proportion of free sales of sugar, the financial results of the first year (1950-51) of factory working were unexpectedly satisfactory. It was possible to set apart a sum of Rs. 8 lakhs for depreciation which helped completely to cover the additional sum required for financing the block and to declare a cumulative dividend of 3 per cent. after setting aside the prescribed reserves, paying a bonus to workers and making a beginning with a development fund. A good price could also be paid to members for their sugarcane and this brought in rapid recoveries of outstanding share calls. The subscribed capital of the Society inclusive of Government shares was Rs. 17 lakhs in June 1951 of which Rs. 16 lakhs were paid up.

The problem of the price to be paid for sugarcane supplied by members is one of central importance in the working of a Co-operative Sugar Factory Society. The producer members who are the principal owners of the factory are naturally interested in having as high a price as possible for their sugarcane. Consideration of having enough funds for working and for normal expansion, of providing for fluctuations and for repayment of loans, etc., make it necessary to follow a cautious policy regarding the price to be paid for sugarcane. According to the bye-laws of the Society, determination of the price rests with the Board

of Management. It is not possible to lay down explicit instructions regarding the manner in which the Board of Management will determine this price. It is important, however, to lay down a maximum limit beyond which the Board of Management may not go. It is not easy to fix this maximum; it must, on the one hand, not be so high as to be inoperative nor, on the other, so low as to be unduly restrictive or harsh in its operation. For example, in the original bye-laws of the Society a maximum limit of Rs. 30 per ton of sugarcane was placed—a limit which appeared reasonable when the original draft of the bye-laws was made in 1947. In 1951 the limit was found to be highly unpractical. This showed that a maximum expressed in fixed money amounts was not likely to prove useful in times of fluctuating price levels. The maximum limit is, therefore, best expressed as a relation between the price per maund obtained for its sugar by the factory and the price per maund to be paid by it for its sugarcane supply.

Another important financial provision made in the bye-laws is for compulsory deposits by members for increasing year by year the capital resources of the society. As the block has been financed to such a large extent by loan capital and by redeemable share capital subscribed by Government it is necessary to think of getting in an adequate flow of capital at the same time as the loan is repaid or the shares are redeemed. The provision made for this purpose is a compulsory deposit, which would later be turned into share capital, by producer members in relation to the acreage of sugarcane grown or the tonnage of sugarcane supplied by them.

A very important aspect of the working of such a co-operative organisation is the role which the Society can play in the development of agriculture and in increased co-operative farming and other activities. From the start of the factory it was recognised that where production credit was not available to individual members from primary credit societies in their own village, it would be necessary to provide crop finance, especially for supply of manure and fertilizers. The supply of this credit should best take the form of a supply in kind and it also required supervision regarding its proper and full utilization. The next step to supplying credit for manure and fertilizers was to supply finance for development. As everywhere, it has been found in this tract that the efficiency and the financial resources of farmers varied in proportion to their scale of operations; so that the vast bulk of small producers, those

having an area of sugarcane of less than 3 or 5 acres, had the least resources but needed them the most for increasing efficiency and developing resources. Adequate finance for crop raising and seeing that it was properly utilised was one way of increasing production efficiency. For development purposes, finance was required for a longer term than the finance for crop raising. The factory area, though under command of canals, had only a small acreage under canal irrigation, due to a number of reasons. Since the construction of the canal system, events had so moved that progressively irrigated land and rights of irrigation had come to be concentrated in particular regions and in the hands of the bigger farmers. It had been hoped by cultivators in the factory area that canal irrigation in the region may be extended with the establishment of the factory. Government, however, chose to consider the old distribution of irrigation water as a prescriptive right or privilege and refused to entertain applications of small cultivators for irrigation rights when the time for periodic revision of these rights arose. In the circumstances, the co-operative factory has to depend for the vast bulk of its sugarcane on water supply from wells rather than from the canals. Increasing the supply of sugarcane, therefore, means increasing the efficiency of water supply from wells. The Society set apart from the profits obtained during its first year of working a sum of Rs. 60,000 to form an agricultural development fund. It then began an examination of the individual circumstances of each producer member who had not been, during the past year, able to grow any cane or to grow it adequately. As a result of this examination, it was decided to utilise the agricultural development fund in giving long-term loans to the smallest and the neediest members to dig wells or to increase their capacity to have adequate lifting apparatus or to install engines. It is also proposed to establish a section in the workshop of the factory for the service of engines and other supply of materials and spare parts required for their operation.

The bye-laws of the factory make it incumbent on members to plan their agricultural production activity and to dispose of all agricultural produce according to the directions of the Board of Management. These large powers are, of course, only partially exercised to-day. The first step, as explained above, is to finance the raising of crops of sugarcane and to plan long-term development so as to secure the proper raising of such crops. The next stage is to improve methods of cultivation and

the quality and volume of produce. Already steps have been taken to procure good sugarcane sets of standard variety so that within two years, with multiplication of seed distributed among prominent members, all the area of sugarcane of members will be planted with tested uniform sets of a standard variety. There is next the problem of the adequate application of manures of the required type. During the crushing season data become available at the factory regarding the production of sugarcane by members, field by field. These enable attention to be paid to producers and fields with specially low yield. Further analysis of sugarcane juice may reveal certain deficiencies in the quality of the sugarcane in the tract as a whole. It may be found that these deficiencies could be removed by an extra doze of a certain fertilizer; in this case inducing producer members to give this doze becomes necessary. There are also problems such as those of insect and pest control.

Even more fundamental are questions regarding the varieties of sugarcane to be adopted for planting and the proportionate distribution of the sugarcane area under crops with varying seasons of maturity. The regular working through of the longest optimum season for the factory requires a steady supply of sugarcane of given amounts through the whole period. Planning of this means necessarily a general overall plan of sugarcane planting within which the activities of individual members should fit. Ultimately a complete and satisfactory plan of sugarcane planting may require directions regarding the utilisation of all the lands of the cultivators.

In many matters such as the multiplication of seeds, the lifting of water, or insect and pest control, co-operative working becomes obviously familiar and profitable. Some of it may be regional co-operation, in other instances it is among neighbouring members such as for water-lifting. The stage of co-operative farming would not be easily reached. The fields of members lie scattered over a large area and sugarcane is only a part of a whole rotational crop programme for each; but beginnings in co-operative farming would be possible where a land area is at present not under cultivation. There are, for example, areas in this region which are water-logged. With a joint effort undertaken, for example, through the development fund of the factory, these could be reclaimed. When reclaimed, it may be possible to farm these co-operatively instead of giving them back to individual owners for cultivation. In all these aspects of the working of the Society, the practical problems

faced in working such a co-operative institution become clear.

The Society has a staff of an agricultural officer and field-men. In the first year their main job was to note the area of sugarcane of members and the details regarding the season of planting, etc., the probable dates of maturity, to make arrangements regarding the cutting and transport of cane and, in many instances, the construction of proper roads to facilitate transport of sugarcane to the factory. Subsequently, the agricultural officer and the fieldmen have been able to give more time to giving advice regarding the time of planting, the types of manure and to undertake insect control activities, supervising the proper utilisation of the finance given by the factory, inquiring into the needs of small individual members, bringing about co-operative effort in water lifting, etc. The problem of fixing the programme of cane cutting for the factory is itself complex enough. For all these purposes Advisory Committees in various areas are set up and the agricultural officer works largely through consultation with them. The powers of the Board for enforcing compulsion are ample enough. The Society's progress will, however, be made only with frequent consultations and with persuasion, which are of the essence of the co-operative method.

This leads to the question of the habits of thought and attitudes necessary for the working of such a co-operative organisation. The success of the Society depends essentially on the loyal support of its members, a primary requirement of all co-operative organisations. From the inception of the Society, the origin of the idea and its successful development have been due to the imaginative foresight of certain local leaders, their persistence in and devotion to the idea, and the great loyalty of members and the faith shown by them in their leaders. The greatest test came in the last quarter of 1950 when g u l prices soared very high, the erection of the factory was not yet complete, and nobody could say definitely how soon it would begin to manufacture sugar. At this time the vast bulk of members refrained from turning their sugarcane into g u l and showed the most remarkable restraint and patience, even though it meant definite monetary loss to many, which amounted in the case of some to substantial sums. Apart from this basic quality of a loyal and co-operative spirit, the organizational set up of a large Society like this creates problems of relation between groups which are of special importance. There is for example, the question of the relation between the technical officers of the factory who are the employees of the Society,

and the shareholders of the factory, including directors who are its owners. The matter is one which calls for adjustment on both sides. On the one hand there is likely to be suspicion, underestimation of the vital importance of qualified technical men for running a complex mechanical unit, and of the ignorance of the problem of maintenance of discipline within the factory; on the other hand, on the side of officers there is likely to be non-appreciation of the intrinsic merits of the peasant shareholders, an indifference to their point of view, and the difficulty of giving up the habit of dealing with them not as officers but as colleagues. The two groups come from two strata, rural and urban, which have so far largely kept themselves apart in India.

A further extension of the same problem which, however, is not immediately in evidence is the problem of the relation of the workers in the factory with producer members. Would it be possible to interest factory workers in some manner in the working of the factory, i.e., as apart from their ordinary employee status? There is little doubt that the Society has benefited greatly in the period of the erection of the factory and its early working from the enthusiasm and the selfless spirit shown by the superior technical staff and by its workers. It was clear, they felt that they were working in a special cause. The maintenance of this spirit is a problem of the relation between the factory personnel and the Board of Directors and producer members. Will it be possible to devise consultative machinery or to interest workers in the working of the factory through share holding or profit sharing in a manner that is special to this Society? This is a large problem that has not yet come under consideration. In course of time it will have to be tackled at some stage or another. It may be that within some years a bulk of the employees will be from families in the region; perhaps even families of producer members. The Society has kept in mind the possibility of even a combined status. A worker in the factory may himself or through membership of a family be a farmer also; in this case he could both be a sugarcane producer member and an employee. A small block of shares has been set apart for allotment to workers of this class alone. As indicated above, the non-producer member shares have not been sold in any number and there is no intention at present to place them with mere outsiders i.e., other than co-operative societies in the neighbourhood. Utilisation of the class of non-producer members for employees of the factory is a possibility which has, however, not yet been under

contemplation.

An important problem in co-operative organization of this type is a wide distribution of benefits of membership. It has been pointed out above how the idea originated in the contrast seen between the prosperity of big immigrant farmers and the sugarcane factories and the comparatively difficult conditions of the local peasantry. From the start, therefore, the idea of a wide and equal distribution of benefits has been borne in mind. There is an upper limit to share holding and an implied upper limit to the area under sugarcane by a member. There is no idea of prohibiting the growing of sugarcane beyond a certain acreage, but merely the possibility of not guaranteeing the purchase by the factory of sugarcane beyond a limit such as that of 25 or 30 acres of an individual member. It has been pointed out how the need of raising finance in the early stages made it necessary to press purchase of shares on members with adequate resources. The present distribution of shares is, therefore, not very even. There is a significant concentration of shares in hands of members holding more than 10 or 15 shares. The Society is aware of this anomaly and is taking steps to see that the disparity does not grow and also that more equitable distribution is brought about progressively. One measure taken is to help actually by short and long term finance the smallest and neediest producers; the best guarantee of a continued even distribution of share holding and benefits is to make the large number of very small producers financially secure and technically as efficient as the large producers. The second aspect of the policy followed is reflected in the policy regarding the transfer of shares. Today the cane supply available from members does not outrun the capacity of the factory to crush. During the second year of the working of the factory some purchases of sugarcane were made from non-members to keep the factory in constant working and to give relief in times of low g u l prices to small non-member producers of sugarcane within the region. However, it is expected that within 3 to 5 years, the members' supply of sugarcane will exceed the maximum capacity of the present factory to crush sugarcane. As a precaution it has been decided already not to issue more shares or to admit new members. With the natural impetus given to sugarcane growing by the establishment of the factory and with the active steps taken by the factory for agricultural development, sufficient sugarcane supplies will be forthcoming from among the existing members. The present pattern of share

distribution cannot be changed immediately and it would indeed be wrong to ask members on whom shares were pressed during times of financial stringency to give up those shares. Policy regarding transfers will determine the future pattern of distribution of shares among members. It has, therefore, been decided that when it comes to the transfer of shares, the transfer as long as it is among members of the same family, would be unrestricted with the proviso that the number of acres under sugarcane of the member was at least equal to the total number of shares held by him and that the maximum of shares holding was not exceeded by any one; however, when the transfer is sought not as between members of the same family, the transfer would be directed by the Society, to either new members from the smallest class of producers or towards additional requirements of the smallest shareholders among existing members.

The constitution of the Board of Management provides for a fixed number of representatives of producer and non-producer shareholders, together with nominees of the Registrar and the Provincial Bank and two representatives each of Government and the Industrial Finance Corporation and two experts to be co-opted by the Board. At least as long as the interest of Government and the Industrial Finance Corporation remains, there will be a large representation of non-producers on the Board. The outsiders are, however, not likely to take an active part in the ordinary working of the Society and any restraint felt will be only through the reserve power in the background. It may also be noted that the present bye-laws lay down a minimum qualification of the holding of 15 shares by a director elected by producer members. There is a suggestion for bringing down this qualification to 10 and another to keep or open up a small number of seats to all. Even with the suggested modifications, 5 representatives of producer members will come from among 50 members and two from among the rest of 350. It has been thought advisable to retain this restriction in the initial stages in order to make easy the working of the Society and to keep away large electioneering problems. It is necessary to note at the same time that the present representatives of the producer members on the Board of Directors who all hold 15 shares or above have constantly during the last 3 years adhered to the policy originally laid down of making the Society essentially a co-operative society of a large number of small producers

rather than the concern of a small number of the privileged into which it could easily degenerate.

ADDENDUM :

The progress of the co-operative factory since the article was written is exhibited in the following table:

Particulars	1950-11	1951-52	1952-53	1953-54
Number of members	490	528	557	574
Paid-up Share Capital (in lakhs)*	12.41	15.24	15.79	16.10
Members' Sugarcane (in acres)	766	1,143	1,568	1,565
Tons of Sugarcane processed	32,479	48,052	57,722	70,883
Average per acre	42.0	42.0	37.0†	45.29
Number of working days	134	173	157	167
Recovery of Sugar per cent	11.49	10.86	10.79	11.49

* This includes Rs. 6 lakhs subscribed by Bombay Government.

† Crop was damaged owing to crop disease and shortage in rainfall.

PRESIDENTIAL ADDRESS

TO THE FIFTEENTH ANNUAL CONFERENCE OF THE
INDIAN SOCIETY OF AGRICULTURAL ECONOMICS
HELD AT ALLAHABAD ON DECEMBER 26-28, 1954.

I am thankful to members of the Indian Society of Agricultural Economics for electing me to preside over this Fifteenth Annual Conference of the Society. I shall utilise the opportunity thus offered to place before this distinguished and influential gathering some thoughts on what I consider to be the central problem of Indian agricultural economy. The subject I have chosen for the address is usually discussed under the broad heading land reform or agrarian reform. There are many aspects of agrarian reform and I shall deal only with what I consider to be the core of agrarian reform in India, namely organization of agricultural production with particular reference to the size and structure of the unit of agricultural production. I need not emphasize that I shall confine myself to the problem as we face it in India to-day but may add that I shall deal with the Indian problem chiefly in the context of or as part of, a plan of rapid economic development.

I shall begin by giving a brief account of what is being done and being thought of about the subject at present in the country. The main constituents of the programme of agrarian or land reform currently undertaken by the State in India are classified as follows in the progress report for 1953-54 of the Five Year Plan :—

- (1) The abolition of intermediaries ;
- (2) Tenancy reforms designed :—
 - (a) to scale down rents to 1/4th or 1/5th of the produce ;
 - (b) to give tenants permanent rights subject to the landlord's right to resume a minimum holding for his personal cultivation within a limited time ;
 - (c) to enable tenants (subject to the land-lord's right of resumption for personal cultivation) to acquire ownership of their

lands, on payment of moderate compensation to the landlord spread over a period of years;

- (3) Fixing of ceilings on holdings;
- (4) Re-organisation of agriculture including the consolidation of holdings, the prevention of fragmentation and the development of co-operative village management and co-operative farming.

Many of the items included in the above have been subjects of attention and activity on the part of governments for many decades past. However, a number of important elements are of recent introduction and the programme has begun to look like an integrated attempt only within the last few years. An important feature which has received emphasis only since the attainment of independence is the abolition of intermediaries, popularly regarded as equivalent to the abolition of zamindari. Theoretically, it is possible to argue that it is not necessary to abolish the zamindar or other intermediary or intermediaries between the State and the actual tiller of the soil. The State could effectively regulate activities of the superior holders so that all the conditions required for an efficient conduct of productive operations by the tenant-cultivator are obtained. Indeed, it has been suggested that a programme of tenancy legislation such as that adopted in a rayatwari state like Bombay could have done equally well in zamindari states like Uttar Pradesh and Bihar. However, landlordism, where it is a recent product and holds only a part of the field, in an essentially owner-cultivator community, operates vastly differently from the way it operates in an environment where it is of long duration and well-nigh universal. Experience of legislation in the recent past has shown how it is difficult to stop even irregular exactions by landlords in the zamindari states. As in all other spheres of Indian economic activity, in this also, it remains true that it is easier, and in the long run more profitable, to abolish a powerful private interest whose activities are apt to run counter to desired goals of national policy, than to attempt to regulate it. The abolition of intermediaries, especially in areas in which landlordism has been all-pervading in extent and influence is thus no more than a primary step in making possible the creation of a politico-economic democratic society.

While emphasizing the primary importance of the abolition of zamindari it is necessary to remember that, in India, it affects, in the main, the distribution of the total agricultural product and not the size and organisation of the unit of agricultural production. Barring a small

number of exceptional areas, to which reference is made later, the typical agricultural producer in India both in the rayatwari and in the zamindari States is a peasant family operating with a small and fragmented holding. The abolition of zamindari may put heart into the erstwhile tenant, may give him hope and will most probably reduce the share of the agricultural produce with which he has to part in terms of revenue and/or rent; but it will not alter the size or shape of his holding nor indeed increase immediately his total working capital resources. This is because, in the first instance, the abolition of intermediaries does not mean the break up of large farms or farming estates or the redistribution of land and secondly because, even if this had been a part of the programme, there are, in fact, with the exception of a small number of regions no, large farming estates in India. The very description of the reform as abolition of intermediaries, emphasizes this aspect of the redistribution of the product and reduction of the burden on the actual cultivator. It is conceived of essentially as establishing, as far as possible a direct relation between the actual tiller of the soil and the State.

Tenancy reform or tenancy legislation has a much wider sphere of operation than legislation for the abolition of intermediaries. It has significance both in the zamindari and the rayatwari states. Indeed, tenancy legislation is found necessary wherever private ownership and operation of land exist, though its direction and content may vary from one system of land tenure to another. The abolition of zamindari may result in landlordism ceasing to exist as a general feature of the situation in an area; it cannot, however, entirely and for all times prevent the emergence to some extent, of temporary or permanent tenancies which must be regulated. In fact, the very effort to keep in check the emergence of tenancies postulates existence of appropriate tenancy legislation. Tenancy reform is essentially directed towards obtaining for the tenant, who in the present Indian context is generally supposed to be the actual operating cultivator, security in the cultivating possession of his holding and reasonable, if not generous, terms relating to share of produce with which he has to part in favour of his landlord or other superior holders. Where it provides for the acquisition of rights of ownership by the tenant it seeks to establish ultimately a direct relation between the cultivator and the State. It may, however, be doubted whether in areas where landlordism has not been deeply rooted and tenancy legislation can, therefore, be effective in protecting the tenant,

it is necessary to divert, for acquisition of ownership rights, such financial resources as the tenant cultivator may possess.

Tenancy reform also, it will be obvious, does not affect the size and shape of the agricultural holding. It brings about, in the main a redistribution of the total produce in favour of the tenant and also gives him a sense of security regarding the future which should react favourably on the economic and technical operation of the tenant-cultivator. However, there is one important difference between tenancy reform and the abolition of intermediaries. The latter is, for the most part, a once-for-all operation; the former, on the other hand, has not only continuous effect but has further to adapt itself constantly to a changing situation. In consequence, though tenancy legislation may not operate directly on the unit of agricultural production, the framing of tenancy legislation is always influenced by total land policy including policy, relating to the size and structure of the unit of agricultural production. In India, tenancy legislation has to concern itself with problems such as those of subletting or of the alienation, transfer or inheritance of land; and all of these have relation with objectives of policy relating to the unit of agricultural production.

The fixing of ceilings on holdings is likely to affect the size of the unit of agricultural production much more directly than either the abolition of intermediaries or tenancy reform. Before proceeding further I may note that the omission to distinguish clearly between the ownership holding and the cultivating holding leads often to a confusion in thinking and exposition of the subject of land reform in India. I shall concern myself in this address, except where explicitly stated otherwise, with the cultivating holding. The adoption of a ceiling may be with reference only to acquisition of additional land in the future. This would act as a restraint on the activities, subsequent to the passing of the legislation, of persons who in the absence of such legislation might have increased the size of their holdings above the ceiling limit. If in any area a trend towards formation of very large holdings has been established or was likely to be established a ceiling on future acquisition would prevent its operation. The immediate effect of the adoption of a ceiling for the future, on size of the production unit would, on the other hand, be negligible, except to the extent that it would encourage actual or notional division of existing large holdings among family members so as not to be affected early by the operation of the legislation. The long term

effects are problematical and would depend on the extent to which the existing or future situation otherwise favoured the formation of very large holdings.

The idea of the ceiling has, however, been developed not in the context of checking future possibilities but in that of granting immediate relief. It had origin in lands where very large landlord estates existed side by side with diminutive peasant holdings and in which there remained some vestiges of serfdom or in which the memories of a serf society were yet alive. The situation created a land hunger and also suggested a not unwelcome manner of satisfying it. The process was best exemplified in the countries of South and East Europe, both within and without the Communist belt, during interwar years; and it was finally worked out in these countries in the years immediately following the end of the Second World War. In India there are few parallels to this situation. The closest resemblance in all features, social, economic and political was in Kashmir. It is here alone also that the ceiling has so far been imposed so as to bring about some transfer of cultivated land included in large estates to actual cultivators. However, it would appear that even in Kashmir the effect of the legislative reform was mainly that of bringing about the abolition of intermediaries. This was because even here the element of direct cultivation in big estates was limited, the bulk of the land in them being already cultivated by tenants. The only other State in India which has adopted the ceiling as an immediately operative concept intended to bring about redistribution of cultivated land is Hyderabad. However, it is impossible to judge at present what, if any, redistribution would come about as a result of the somewhat complicated piece of legislation that has finally been adopted in Hyderabad. Even the comparatively large estates of Kashmir and Telengana do not or did not contain elements of direct cultivation large enough for redistribution to affect sensibly the problem of the small peasant holding, in even restricted areas. Elsewhere the contrasts are much less glaring. The concept of the ceiling, if it is to be used in India must, therefore, be different in content and operation from that in countries with large landlord estates, plantations or latifundia.

The concept of the economic holding or a minimum holding called by any name, like the concept of the ceiling, can form the basis of an immediate operation of reorganization or can be confined to setting a limit to future transactions. In the latter alternative it may, act as an

effective means of preventing a worsening of the existing situation and may partly even help to improve it gradually in the future. These effects will, however, become apparent only slowly over a series of years and a limit for the future cannot help towards reorganisation, if the existing situation is itself extremely unsatisfactory. A minimum holding or a floor has not been used in any State in India yet for bringing about immediate reorganisation of production units in lands included in units below the minimum size.

Consolidation as practised in India affects powerfully the internal organization of a holding, though not usually its total size. The process of consolidation may lead to some saving in the land surface used for such purposes as boundaries or roads and may thus enable formation of a pool of land for specific common purposes. But the saving effected in this way is not likely to yield substantial acreage for distribution among existing holders. Co-operative farming or co-operative village management are yet chiefly in the stage of thought. What little action has been taken is experimental and nowhere has any legislation been formulated or contemplated which bases itself on the formation of co-operative farming units for at least a part of state policy relating to land management.

It would be clear from the above account that the present programme of land reform in India does not bear to any significant extent on the structure or size of the unit of agricultural production. Excepting the attempts at consolidation of holdings, which affect the internal organization of the unit, no other feature of existing or contemplated legislation is important in this context. The ceiling and the floor to the cultivated holding, in the few States in which they exist, are thought of essentially as regulating future activities, and their importance for immediate reorganisation must be considered negligible.

Legislation on land reform is essentially a matter for governments of States. Therefore, the programme is usually framed in the context of particular problems of each State. The activity of the National Planning Commission affords the chief occasion and instrument for integrating policies of different State Governments and for formulating a common Indian policy. Considerable importance, therefore, attaches to the views regarding land policy contained in the first Five Year Plan. It is difficult to piece together in a consistent whole the ideas contained in the chapter on Land Policy of the Plan. The problems of the policy are divided into two aspects: Land Management and Land Reform. It is

evidently considered that there is some conflict between the two; for, it is said that "Land Policy should include both elements but should maintain a balance between the two" (p. 88)*. The abolition of intermediaries is accepted unequivocally, though it would appear from later sections that all land-owners are not considered to be intermediaries in relation to all land surface not cultivated directly by them. There is a similar lack of clarity in respect of the distinction between the cultivated holding and the ownership holding in other instances. Without entering into a discussion of these peculiarities of exposition, the main ideas of the Planning Commission may perhaps be summarised as follows. A limit for future acquisition of holdings or for resumption of personal cultivation is favoured. The limit proposed is three times that of a family holding, which is defined as equivalent to a plough unit or work unit. In relation to existing large cultivated holdings it is laid down that the principal consideration should be whether or not such management is in public interest; and public interest, in this context, is somewhat narrowly interpreted. It is to be judged on the single criterion as to whether the management fulfils the standard of efficiency necessary to raise production in conformity with the plan. It is only when the large cultivated holdings are palpably inefficiently managed that land management legislation would give the appropriate authority power to take over the land "in excess of the prescribed limit" and to arrange for its cultivation. Here again, there is evident confusion between the two possible reasons for taking away any piece of cultivated land from a person cultivating it; one, that the holding is too large and the other, that it is inefficiently managed. The most curious feature of this part of the exposition is the optimistic forecast that the proposals would provide for a large measure of redistribution of land belonging to substantial owners.

The suggested land reform policy is again not uniform; it is evidently to change with size of land owning. The most important result is that the tenants of small and middle owners are recommended much less protection than the tenants of large owners. As middle owners are defined as owners of land upto three times the family holding the field of tenancy protection is thus seriously narrowed. The main reason given for the maintenance of a large class of tenants-at-will in this way is that

* For ease of general ready reference the quotations have all been given from the Peoples' Edition of the First Five Year Plan.

otherwise movement of people from agriculture and rural areas into other occupations and towns may be seriously checked. It is fortunate that most State Governments have paid little attention to this recommendation in their legislative programme.

In relation to the landless worker the main concrete reference is to the भूदान movement. "It offers the landless worker an opportunity not otherwise open to him" (p. 92). This can be only interpreted as meaning that the State itself considers it neither necessary nor possible to do anything for him. It is added that the problem of the landless worker must be considered in terms of institutional changes which would create conditions of equality for all sections of the population. The essence of these changes is described as a system of co-operative village management. Co-operative village management is referred to in the Plan in other contexts also. For example, after having formulated the important and unexceptionable proposition that "the basic condition for increase in agricultural production is increase in the unit of management of land" (p. 93) this also is said to be possible only through co-operative management at the village level. With regard to the small and the middle farmers again it is recommended that they should be encouraged and assisted to develop their production and organize their activities on co-operative basis. With this emphasis on co-operation it would be expected, that co-operative organization or co-operative village management would be described in specific detail a programme sketched out for establishing it. The following extract summarises the ideas of the Planning Commission on co-operative village management.

"Broadly speaking, however, we envisage that the village panchayat should become the agency both for land reform and for land management in the village. In the first place it should be the body concerned with the management of land taken over from substantial owners, and also of village waste lands. The leasing of lands by small and middle owners should also be done through the panchayat and not directly. In this way the village panchayat may be able to provide cultivating holdings of economic size, at any rate for landless cultivators. The exercise of these functions would naturally lead on to the wider conception of the co-operative management of the entire land of the village and the undertaking of activities for creating non-agricultural employment in the village."

It is not necessary to comment on the above except to note that it

does not deal with the problem in the comprehensive manner that might have been expected, that it is over-optimistic and also that the working model presented is obviously unsuitable and inadequate in most respects. Moreover, no concrete programme is provided for progress in the direction of co-operative village management even according to ideas contained in the Plan, beyond the Rs. 50 lakhs provided for study, training and experimentation. It would not be unfair in the circumstances, to suggest that the Plan proposes little of importance in relation to land management and that we have at present no effective programme in contemplation for dealing with what the Planning Commission itself recognises as the basic problem viz. that of "the increase in the unit of management of land."

Not only is the subject treated unsatisfactorily in the Plan but also the subsequent activities of the Planning Commission and the Central Government do not indicate that it is currently held in importance or receives any special attention. The progress report of the Plan for 1953-54 notes that the Government of India constituted in May 1953 a Central Committee for Land Reforms consisting of members of the Planning Commission and some members of the Union Cabinet. It is, however, not indicated what policy decisions, if any, have been taken by this Central Committee and no advance in ideas or concepts over those contained in the Plan is anywhere recorded. The Community Projects are supposed to be the special field of the Planning Commission and great reliance is placed on them in relation to agricultural development in the future. Not only do these Projects pay no attention to land reform or land distribution but even experimentation in relation to land management appears to find no place in them. The complete absence of any attention to it in the programme of community projects is evidenced by its not having been necessary to devote any attention to the subject in the Evaluation Report on the first year's working of these projects. And the later report of the Evaluation Organization, "Community Projects-First Reactions" contains enough evidence to show how the project authorities completely ignore land management and land reform problems.* In

* See, for example, the following :—

"This is a very poor village and most of the villagers are illiterate. Majority of the families are landless and land is their greatest felt need. The community programme being mainly related to agricultural improvement has not touched the basic need of many (majority being of non-land owners) and has not

regard to co-operative organizations we have the following comment in the Evaluation Report. "While in the very initial stages of the formulation of community plans this aspect of mutual dependence between community development and co-operative organization was not so explicitly stated, during the course of the year increasing emphasis was placed by the Community Projects Administration on promotion of co-operative organizations" (p. 39). The co-operatives to which increasing attention is reported are still the credit, purchase and sale and other organizations and not experiments in increasing scales of land management. The putting forward more recently of agricultural extension as the panacea for all rural ills is, perhaps, a reflection of the same attitude. It appears to be considered by the Planning Commission, as by many foreign experts, that all that is required to increase agricultural production in India adequately is to arouse enthusiasm and to transfer techniques. The problem as to whether conditions in the field are such as to favour generation of enthusiasm and the acquisition and continued practice of new techniques does not evidently need prior consideration. Finally, it is reported that in some States the Central Government, presumably acting through the Planning Commission, was responsible for persuading Governments to modify their original ideas regarding immediate operation of a ceiling on holdings. All in all, one gathers the impression that while in its theoretic formulation the Planning Commission may recognize the existence of the problem of land management it is not ready to give this recognition any immediate or concrete form.

For a statement of integrated thinking on the subject, the steps in which have been fairly reasoned out and which appears to have influenced to some extent action of Governments, during the last few years, one must have recourse to the Report of the Congress Agrarian Reforms Committee. It cannot be said that this Committee was not impressed with the importance or the urgency of the problem. Writing at the time it did, the Committee was specially impressed with the need for an immediate and complete abolition of intermediaries. It, therefore, gave a great deal of attention to that problem and argued effectively the case in favour of the abolition. For the same reason, it tended to treat

been appreciated by them. Due, however, to the VLW'S contacts and propaganda, many know about the programme and there is nothing in the project which would make them hostile or apathetic towards it", op. cit., p. 72.

the problem of the reform of the unit of agricultural production as subsequent to the effective abolition of intermediaries. Therefore, though its approach to this problem is outlined fairly fully the Committee does not make recommendations in regard to it that are as specific or definite as those made in relation to the former, more immediate problem. The general approach of the Committee turns on three separate definitions of the holding which it formulates and which it calls respectively the basic, the economic and the optimum. The basic holding of the Committee may well be interpreted as a watered down or a "realistic" economic holding. In the words of the Committee the basic holding is the holding "smaller than which would be palpably uneconomic from the point of view of efficiency of agricultural operations". The economic holding, the Committee defines in terms of the standard of living afforded by it to the cultivator and the employment that it provides to a family of normal size and at least a pair of bullocks. The Committee realised that the economic holding so defined sets a standard with which it would be impossible to operate in India unless the large majority of peasant family farms are to be denied independent existence. It, therefore, provides for a lower operating unit called "basic", the criteria for determining which are for obvious reasons somewhat vague. The "optimum" unit of the Committee, which is the same as the general concept of the ceiling, is defined as three times the size of the economic holding. It is difficult to argue out a case for any particular figure as the proper multiplier in this instance. The important point to notice in the context is that the Committee is definitely against mechanised capitalist farming and that it recommends the operation of the ceiling on holdings so as to make impossible holdings which could be worked or managed and supervised by an owner only when mechanised. The "optimum" of the Committee is thus the largest unit which an operator can manage without the farm falling within the category of capitalist mechanised farming. The basic or the economic holding are both concepts which are highly relative especially when based on a measure of the standard of living. The actual or aimed standard of living in any country must have some reference to the resources and the national income potential of the country. Whatever the problems involved in defining the various units of holdings the Committee's approach involves the use, as generally suggested, of the two limits which may be called the floor and the ceiling respectively.

The Committee does not, however, work out in detail a land management policy based on these two operative limits. It states clearly that the ceiling should be effective and lands above the ceiling should be redistributed. It also holds definitely that lands below the basic holding should not be allowed to be cultivated independently and that they should be generally pooled into some type of co-operative productive organisation. The Committee, however, nowhere gives consideration to the crucial factor in an operative programme, that of relative dimensions. What number of peasant households or what proportion of land is at present included in holdings below the basic, what proportions are likely to be available for redistribution by the operation of a ceiling and how the total land surface to be redistributed is to be reconstituted into effective operating units; these are the basic data in relation to which alone the large number of administrative and legislative problems connected with any policy based on the ideas of a ceiling and a floor could be solved. In the absence of such detailed calculations the Committee accepts or at least acquiesces in the prevalent notion that the vast bulk of existing units would continue to operate independently.

It is the merit of the Committee's Report that it indicates an approach to the problem which in Indian conditions is both economically feasible and is likely to be acceptable politically. As pointed out above its great pre-occupation with, logically, the earlier problem of the abolition of intermediaries did not, perhaps, allow it or induce it to work out the practical programme in detail.

Barring the report of the Congress Agrarian Reforms Committee there is no comparable official or semi-official document which contains a reasoned discussion of this problem. It is understood that some foreign experts have in recent years also advised the Government of India and the Planning Commission in relation to problems of land reform. The reports of these experts are not readily available to the public and it is not, therefore, possible to say what they contain and what the reactions of Government have been to the recommendations that might have been made. It is however, known that a number of foreign experts, especially American experts, lay a great deal of store by the independent peasant unit of operation. There is, on their part, usually a considerable distrust of State effort and they entertain a generally sceptical attitude towards co-operative effort. It is in their tradition also to frown on any State assistance or direction to the building up of co-operatives. The

notion of a "collective" is, of course, totally repugnant to them.

As indicated above, the Planning Commission appears content to operate with the existing unit of agricultural production and does not propose to change in any radical manner the organization of land management and operation. The Congress Agrarian Reforms Committee also formulates its actual programme very largely in terms of the peasant farm and it does not appear to consider that a programme of reorganization involving large numbers of families and a considerable land surface is insistently called for. The experts appear to talk almost exclusively of the peasant unit and their ideas of land reform are confined mostly to abolition of intermediaries and dealing with large estates. In the circumstances, it becomes necessary to examine existing conditions carefully, especially with a view to throwing light on the strength and efficiency of the independent peasant farm as the unit of land management and agricultural production.

It is generally known that the size of the large bulk of farms in India is very small and that numbers of them cannot be called family farms in any valid sense of that term. However, no attempt is usually made to indicate with figures the dimensions of the problem. I shall, therefore, note certain salient features of the situation very briefly. My concern is with the unit of land management, the cultivated holding, and data relating to ownership of land are not relevant to my purpose. The data required are those relating to size, scale of operations and of investment, receipts and employment, etc., from farming, of the independent farming units. Through courtesy of the authorities of the Reserve Bank of India I am enabled to use data contained in their forthcoming publication—the Report on the Rural Credit Survey. The data were collected from a stratified sample of 15 cultivating families in 600 villages in 75 districts in India and relate to the year 1951-52. In the context of the subject of my address the most revealing figures are those relating to the reported value of gross produce. According to the Survey a little over half of the cultivators reported a value of gross produce of farm business lower than Rs. 400 for the year. There was possibility of some underreporting or underestimation in these values. However, the most generous allowance for this factor would yet leave an estimate of more than half of the total cultivating families as falling in the class of value of gross produce of less than Rs. 600 per year. The usually cited figures of acreages of cultivated holdings present difficulties of in-

terpretation because of the large variety in size of holdings and quality of land from region to region. The value of gross produce, though its detailed significance may no doubt vary from area to area, gives yet sufficient indication of the size of total business in comparable terms.

This then is a useful starting point of the description, that half or more of the farm units, i.e., independent units of land management in India may have a gross produce of farm less than Rs. 600 a year. The next step is to assess the relative importance of farming activity to the farm family. In the total number of cultivators reporting less than Rs. 400 of value of gross produce during the year two divisions were made representing those with a value of gross produce below Rs. 200 and those with a value of gross produce between Rs. 200 and Rs. 400. The former formed slightly more than 29 per cent. of the total cultivators and the latter group 21 per cent. Those reporting value of gross produce less than Rs. 200 reported total farm expenses which exceeded their value of gross produce and those in the latter class reported total farm expenses that were on an average only about Rs. 60 less than the average value of gross produce. The average reported cash receipts from sale of crops and fodder in the two classes were about Rs. 20 and Rs. 70 respectively and both classes reported cash farm expenses that were more than Rs. 50 on an average than the average cash receipts from sale of crops and fodder. Making all allowance for errors in reporting, etc., it is clear that the cultivators included in these groups earn little, if any, net cash income through their farming activity and the main advantage derived by them from farming is some contribution in kind to family living.

This is emphasized by the data relating to the relative contribution of the different sources of cash income to the total cash receipts of the cultivating family. Here, the data used are those relating to the upper and lower half of cultivators divided, per village, in relation to the size of their cultivating holdings. Because of the possibility of some small holdings yielding proportionately greater values of produce and vice versa the division by the cultivating holdings does not completely coincide with the division by value of gross produce. In the main, however, cultivators in the lower strata have much lower values of gross produce than those in the upper.

To illustrate the importance of farm business to the family, I cite the data relating to the sources of cash receipts of families during the

year. The average cash receipts per cultivating family of the lower strata during the year was about Rs. 310; of these the largest single source was cash wage receipts amounting to Rs. 133 or nearly 43 per cent. of the total. Value of crops and fodder sold was only about Rs. 108. Sale of milk and milk products represented a little over 7 per cent. of the total cash receipts and carting and remittances each contributed between 4 and 5 per cent. of the total. Perhaps even more illuminating in relation to the size of operations of the individual cultivating family and the role of farming in it are the corresponding data for the upper strata of cultivators. The reported total cash receipts of the average upper strata family were Rs. 594, less than double the average cash receipts of the lower strata family. That these families were mainly concerned with farming is evidenced by their receipts from sale of crops and fodder amounting on an average almost to Rs. 400. Sale of milk and milk products are relatively of the same importance for the upper strata as for the lower strata, representing 7 per cent. of their total cash receipts. But the most significant feature is the amount of receipts from cash wages and remittances. Remittances received by families of the upper strata amounted to nearly Rs. 25 per family and cash wages to over Rs. 83. The proportionate share of cash wages in the receipts of the upper strata was much less than in that of the lower strata, but the difference in absolute amounts was much less striking. The cash wage receipts of the average family of the upper strata were more than 60 per cent. of the corresponding receipts of the family of the lower strata and the amount of remittances received by the former was almost double that of the latter. The remarkable fact is that taking wages and remittances together as representing outside labour employment that cultivating families had to undertake, the average of such employment in the average upper strata family is not much less than that in the average lower strata family. The main difference lies in the overwhelming importance of receipts from wages for families of the lower strata.

The picture may be elaborated by reference to other data which relate to all the families in 600 villages. The grouping of families in this case is by each tenth or decile, in the list of all cultivators arranged in order of the size of their cultivating holding. Of the total borrowings of even the middle four deciles, more than half represented borrowing for family expenditure items; for the last three deciles the corresponding proportion was almost 60 per cent. The capacity of the average

cultivating family to undertake capital expenditure was obviously extremely limited. The average expenditure undertaken on all items such as bunding, reclamation, irrigation sources, implements, etc., including expenditure on repairs, maintenance and replacement was about Rs. 22 for families of the lowest three deciles and Rs. 51 for families of the middle four deciles; the corresponding amount was Rs. 311 for families of the first decile. But if this expenditure is taken together with expenditure on purchase of livestock by the respective groups of deciles and the total calculated on a per acre basis the expenditure incurred actually increases as one goes down the groups of deciles. This means that while the total outlays of the families of the middle and lower deciles are small and are known to be inadequate their burden in terms of per acre costs rules high.

It is not necessary to labour the point further. What I want to emphasize is that the size of farming business of at least half the cultivating families in India is such that it is futile to consider them as independent units of land exploitation in any plan for a developing economy. It is irrelevant in the light of the data cited above to talk in terms of family farms or economic holdings. Even the definition of basic holding of the Congress Agrarian Reforms Committee cannot cover these units. Therefore, a land policy for a developing economy must face up to the serious problem of the reorganization of these units. A vague recognition of these facts is seen in the general comments made in various contexts by numerous experts and Committees on the "non-creditworthy" or the "marginal and sub-marginal" groups. This recognition must become more explicit and must lead on to a realisation of the inability of any supply or credit reorganization to deal with fundamental defects of the small size and turnover of the existing basic units and of the large numbers involved in any scheme of reorganization.

Before going on to a further consideration of the problem it is necessary to pay attention to an important factor which has emerged during the last few years. I refer to the movement for *सूदान* initiated and actively led by Acharya Vinobha Bhave. The movement is so original in its conception, so novel in its methods, and so revolutionary as to its objectives that special effort has to be made to understand it and to place it in its proper perspective. I begin the discussion by presenting a summary account of what I consider to be the essential features of the movement. Though I have read some of the original writing

on the subject and also sought to profit from informed commentaries and interpretations, I am deeply aware of the limitations on my knowledge of the subject and can only hope that the summary presented by me is fair and that I have not misinterpreted or misrepresented the essence. The movement may be said to owe its origin to an overwhelming feeling of revolt at the gross social injustice existing in our society and a deep compassion for the disadvantaged classes in India. It embodies an attempt at initiating a social revolution such that these submerged classes, of whom the numbers and proportions are extremely large in the Indian countryside, obtain some immediate relief and a ray of hope for the future. The chief initial propositions are that rural society in general and the landless rural classes in particular are heavily disadvantaged in India today, that rural society is being continuously exploited by urban classes, that in terms of political power, economic strength or social influence, it gets a very rough deal and that unless the balance is rectified there can be neither peace nor prosperity in the land. The immediate problem to which the भूदान movement addresses itself is that of the landless labourer but, as the extension of the movement in directions such as संपत्तिदान or जीवनदान shows it as an all-embracing movement directed at the total problem of social injustice. The main objective of भूदान is to provide for each family in rural society with at least a small piece of land to cultivate. This is aimed at as the only way of giving every family some means of livelihood and the feeling of a stake in society. Rural reconstruction as envisaged by the भूदान movement is also directed towards encouraging rural industry and attaining comparative self-sufficiency. It is not clear whether these are considered to be primary objectives, as having values in themselves, or as methods of rehabilitating rural society. The doubt arises because Vinobaji seems to have made clear on various occasions that he does not object to an urban structure as such. In his opinion it is possible to have a proper division of labour between urban and rural society which is a just and a non-exploiting one. He does not also apparently object, in principle, to the use of machinery. He objects, in a measure, to its present use because it is evidently the instrument of exploitation, on the one hand and concentration of power on the other.

The programme of action which the भूदान movement sets out is that of asking for voluntary gifts of land from present owners. It is made clear that the word दान is not used in the sense of simple gift

or charity. Starting from the definition दानं संविभागः that दान is proper or just distribution, the gift is sought as voluntary redress of present injustice. The process seems to be conceived of as follows. The awareness of distress of others may arouse sympathy, compassion, दया and such sympathy joined to reflection may bring awareness of the existing stage of social injustice and one's responsibility, in part, for it. Such awareness would induce action to redress the injustice to the extent possible for oneself; and this is the basis of the general demand made of everyone of a fifth or sixth or some similar proportion of his land possessions. The programme for redistribution of land thus begins with a gift, conscious and voluntary, by present owners of a part of their land in favour of the landless. The land so collected forms the pool for redistribution. It is realised that the voluntary movement may not necessarily be sufficient. Legislation may ultimately come in, but legislation is thought of as the ultimate expression of a popular will, the culmination of a popular movement. To arouse public conscience and to obtain for redistribution of land general support, to create in its favour what is called जनशक्ति a power, a strength, or a force, arising from among people themselves : this is expected to be one of the results of the movement; it appears at least to be one of its primary objectives. On the manner of redistribution itself, there seem to be no dogmas, no hard and fast rules. The essence is that any pool obtained in a village must be redistributed according to the wishes of the people of the villages. Vinobaji personally, it is said, would emphasize the role of co-operation. For him the preferred general pattern would be widespread co-operative cultivation with a kitchen garden for every family. He is also supposed to favour both a ceiling and a floor for holdings. However, sensing perhaps that a voluntary movement will not be called upon to deal with general problems of redistribution, he appears content with each small piece of land acquired for a landless person as a step forward in curing social injustice, creating an element of stability and making possible the reconstruction of rural society.

Such, in brief is the account that I have gathered regarding the objectives and programme of the भूदान movement. It now becomes necessary to subject these to some scrutiny. It is a task which I approach with some diffidence and with all humility. In Vinobaji we have not only the greatest but also, perhaps, the only force that has acted in independant India for dealing with the problem of concentration of econo-

mic and political power, which is at the root of all evil in our society. Such an effort made in such a bold, all embracing manner and involving such vital reinterpretation of our traditional values must needs receive the instinctive sympathy of all Indians. At the same time our intellectual tradition enjoins on us the responsibility of examining whether the premises of the movement are correct, its objectives appropriate, whether its programme leads us in the right direction and whether there are no repercussions of it that will deflect us from the desired goals.

Examining the premises from which the movement starts it is possible to show that they are well founded. The facts on the cognition of which the movement is based can be evidenced from statistical data. The data of the Rural Credit Survey can, for example, be drawn upon to support the premises in two important directions. The first is that of the existence of land hunger accompanied by the fact of extremely low sizes of holdings of land. The extremely small size of the holdings of what might be called the middle and the small farmers are emphasised in the data over and over again. These, however, are matters of common knowledge. The more remarkable support to the premises is brought out by the indirect evidence obtained during the Survey on the existence of land hunger. This was made clear through replies to questions asked to cultivators regarding their credit needs and the direction in which they would use credit if they obtained it. A very large proportion of the credit requirements, especially of cultivator amongst the lower strata, i.e., the lower half of the body of cultivators arranged according to size of cultivated holdings, was for purchase of land. The average need for credit for purchase of land reported by the average cultivating family was much more than Rs. 300 and more than 40 per cent. of the total reported credit needs of the lower half of cultivators was for purchase of land. The data attain special meaning when they are compared with the actual expenditure which had been incurred by the reporting families on purchase of land in the year in which the Rural Credit Survey had been conducted. The average actual expenditure of the lower strata was Rs. 12 as against their reported credit needs for purchasing land which averaged at Rs. 333. The limited purchases were due both to non-availability of credit as well as to non-availability of land. It does not follow that if credit had been available the purchases would in fact have been more. If everybody wanted to purchase additional land and there was no new land available, net purchases of

land could not be made by everybody, whatever the credit facilities. At the same, time the replies emphasize the great urgency, the high priority above everything else given by members, particularly of the lower strata, to purchase of additional land. Land hunger is thus clearly exhibited in the Rural Credit Survey statistics.

Other data, supporting the premises, available from the Rural Credit Survey are those relating to the economic position of the non-cultivating classes. The non-cultivators of the Rural Credit Survey included all classes other than cultivators, cultivators being defined to include all those who cultivated even a small plot of land. The non-cultivators of the Rural Credit Survey thus comprise traders, moneylenders, artisans, labourers, all those who had no cultivating holding of their own. Though a mixed class, it was, in the main formed of the artisans and the labouring classes. According to the Rural Credit Survey data the average performance whether in level of debt, of repayment, of borrowings, of family expenditure, of capital expenditure, of financial investment, of the net balance of capital-transactions or any other indicator of economic well-being of the non-cultivators, on an average, was worse than that of even the last three deciles, i.e., the last 30 per cent. of the cultivators arranged in accordance to the size of their cultivated holding. These are average figures for a somewhat mixed class. It can be realised from the data how the economic condition of the classes to whom Vinobaji directs attention, the landless labourers and the inferior artisans, in particular, is much worse even than of the smallest of the cultivators. In this context, to have land, even a small plot of it, must appear to the landless as leading almost automatically to improvement or possibility of improvement which must remain beyond their hope till they obtain possession of this essential means of livelihood.

The premises on which the भूदान movement rests can thus be supported both by statistical data and general experience. We may next see whether granted the premises the objectives and methods of the movement are justified. Here again it is possible to argue that in a static society in which no technical change is going on an increase in population would require a redistribution of land such as is sought by the भूदान movement. There are a number of simple agricultural societies in which periodic redistribution of land has been practised as a means of adjustment between the resources of society on the one hand and the needs of groups of families or of the individual family on the

other. The argument may be extended so as to apply to a society in which the progress of total technical change was overshadowed by the growth of population. The resulting situation may not be widely different, especially in the agricultural sector, from that of a society with a stationery technique and growing population. Conditions in India during the last century approximate to this picture. Since the time we have had comparatively reliable data, say 1880, a trend has been in evidence towards increasing numbers depending for support on agricultural activity which, in turn, was based on a comparatively non-expanding area of cultivated land and on techniques which were changing only very slowly. In the earlier stage it was not only a case of larger numbers being supported by land but even larger proportions of the total population depending on it. In more recent decades this trend has stopped and the growth of urban population has been somewhat faster than that of rural population. Comparative data in regard to occupational distribution of the population cannot be set out because of the many defects, in this regard, of the Census data. However, even though in recent years there might have been a slight decline in the proportion of the people depending on agriculture and a definite trend towards more rapid urban growth it yet remains true that the total absolute numbers of those depending on land and agriculture is steadily increasing and continues so to increase. The consequent adjustment that has taken place through the recent decades in India is that of a progressive diminution in the size of the average holding through successive sub-divisions and the creation of a larger and larger class of the completely landless. The भूदान movement may be said merely to look on these facts and to insist that while the existing situation lasts the landless must not be completely deprived of the primary means of sustenance, i.e., some land and equipment, and that society must look at this problem as a problem essentially of social justice. Given the existing situation in India and given the present apparent powerlessness of the Government either to initiate rapid economic development in general or to devise any logical solution to the land problem in particular, the भूदान approach cannot be dismissed as either irrelevant or ill-directed.

The possible results, if the movement affects large areas, will obviously be a partial reduction of the average area of the large holdings, a partial reduction of even the area of the average or below the average holdings, and the creation of a large number of extremely small new

units. *P r i m a f a c i e* all these results may be called unsatisfactory. However, the real question is whether they are more unsatisfactory than the existing situation or than the situation that will develop with existing trends. It may no doubt be unsatisfactory to create a large number of very small new units of holdings. But, if the only alternative to the creation of these very small new holdings is for the landless to continue to exist as they do without alternative occupation, without sufficient sustenance and with no hope or zest in life can it be said that the creation of these new small holdings is an evil or that it is not an improvement, however small, over the existing situation.? A small reduction in size of the average holding or in size of the large holding is no evil, looked at in this manner. If finally it is realised that the movement desires specially a transfer of land from the largest holders to the smallest or to the landless and that it accepts gifts from the average or below the average holder as merely a token, as contributing to the creation of *जनशक्ति* the whole will be placed in its proper perspective. The above argument necessarily proceeds on certain assumptions regarding technical change and economic development to which attention must now be directed.

The first assumption is that the cultivating possession of even a small plot of land brings about a radical change in the economic position or outlook of the landless and that even small additions to diminutive holdings have a large actual and psychological effect. Where employment of agricultural labour is extremely uncertain and the level of wages very low and where rural artisan industry is chronically depressed, a plot to employ oneself with and on which to grow some part of one's food supply, may conceivably bring about a transformation, economic, social and psychological. Further, a wider distribution of land may rectify the existing distorted balance of terms of exchange between classes; the possibility is indicated by the reported opposition, for fear of not obtaining sufficient agricultural labour, of the larger landlords to the *भूदान* movement.

The second assumption is that of the almost complete divisibility of land surface as a means of production, or to put it in alternative terms, the assumption that consideration of economies of scale can be ignored in agricultural production. This, no doubt, is a large assumption; but it would come naturally to the protagonists of the movement who are used to thinking in terms of a simple non-mechanised technique and a simple structure of economic organization. And it may be argued

that for the large bulk of agricultural producers in India actual conditions are not far different from the assumed simple technique and organization. For the larger part of the crops grown, the methods of cultivation, the degree of intensity, etc., are all actually at a uniformly low level and the per acre product does not appear to differ widely as between small plots and large holdings. The resource most wastefully employed is, in these circumstances, labour; but we are reasoning about a situation where labour has, after all, no alternative employment. Finally, it may well be asked whether the existing policy of the State in India with its neglect of the problem of land management and emphasis on agricultural extension is not itself tantamount to ignoring economies of scale. If propaganda aided by a little reorganization of credit and supply is supposed to achieve the desired results in the existing distribution of size of holdings, the same achievement ought not to be difficult with a somewhat more even distribution of the same.

If one grants these assumptions, and I have argued that they are tenable and are also implicit in the ruling policy of the State, considerations of social justice must take high priority over those of economic production. The भूदान movement, in the circumstances, is not only completely justified but also remains, in face of the indifference or powerlessness of the State, the only instrument of the desired social transformation. This is not to say that if a plan of rapid economic development was under way and an appropriate land policy had been evolved, it would still be necessary to adopt the immediate objectives and programme of the भूदान movement. In fact, one could point to certain aspects of the movement which may, in that event, hamper the working of a plan of development and to certain repercussions of it which may create grave difficulties in the way of future progress. Before I leave the subject, it is necessary to pay brief attention to these.

It is assumed that a plan of rapid economic development and an appropriate land policy will be conceived in terms of advanced techniques and comparatively complex forms of economic organization; such a plan and policy will also not find it possible to ignore economies of scale. It follows that a movement which increases the number of diminutive holdings in the country will act in a direction which will be contrary to that of the plan. The भूदान movement has, further, no bearing on, and indeed ignores the problem of, the rational layout and utilisation of the land surface. Both these are bound to be important

parts of a plan and the movement's emphasis away from them may prove a handicap. Supporters of the movement may reply that what are logical features of the programme in existing circumstances need not persist and need not prove obstructive when circumstances alter. If the movement itself leads to the State undertaking a plan and a policy which result in increased and more diversified employment, wider security and greater equality for rural society, it will have largely succeeded in its ultimate aim and need not necessarily pursue existing programmes.

There is one possible repercussion of the भूदान movement which I greatly apprehend and in regard to which the above would not prove an adequate reply. This is that of increase in intensity of the sentiment of ownership or possession in relation to land. No doubt, the भूदान movement is itself based on a denial of rights of private property, especially in the means of production. Its slogan in relation to land is सबै भूमि गोपालकी. But its actual programme results in investing rights of ownership of land in a vast number of people. Even its appeal for gifts is couched in terms of a more equal distribution of ownership of land; so that those who give do not, through their gift, subscribe to the doctrine of the social ownership of the means of production; rather, they would be strengthened in their sentiment of rightful possession, after their discharge of the social obligation through the gift. Practical considerations have no doubt made it impossible for the leaders of the movement to lay the emphasis on co-operation, on collective ownership and use that would logically follow from their basic philosophy, except when they have obtained gifts of, say, the entire lands of a village. Granting this, the fact remains that the main result of भूदान would be creating a large body of very small new holders and of generally intensifying the sentiment in relation to the ownership of land, its social prestige and its economic value. Taken together with steps such as that of the abolition of intermediaries and the provision for tenants to acquire ownership of land, the total situation, in which landownership was not largely diffused in vast areas of the country and large bodies of peasants had not vested rights in the lands they cultivated, is being rapidly changed to one, in which most of the cultivated land surface will be vesting in a very large number of small holders who are likely to hold to their newly acquired rights with great tenacity. I am not arguing against steps such as that of the abolition of intermediaries which I hold as essential preliminaries, but only in favour of trying to avoid the undesirable effects, in term of

popular sentiment, resulting from it.

It would be unwise to ignore the dangers that might develop out of the existing situation. भूदान owes its origin to Communist activities in Telangana and it might be relevant, in this connection, to cast a glance at the pattern of Communist history. It shows consistently, in the first instance, a movement towards redistribution of land to win popular support and arouse popular enthusiasm, followed at no distant date, by a move towards socialisation, collectivisation and other programmes which all necessitate wresting lands away from the peasants in whom they had been recently vested. The latter step has invariably created a grave crisis. It is held that the Russian Revolution passed through its most critical phase at the time when the first large movement towards collectivisation was made and communist countries of South and East Europe have, in the post-war period, found collectivisation to be the toughest problem with which they had to tackle. It is unnecessary to enter into the justification or logic of Communist strategy. I merely suggest that Communist experience presents a grave warning to which we must pay heed. There is nothing in the Indian situation today, if we conceive it in terms of a rapidly developing economy, to require or to justify a further diffusion of the ownership of land. At present the jurisdiction of the State in regard to plans of distribution of land surface and its utilisation is widely recognised. It seems to me to be highly unwise to disturb this situation and to create conditions under which efforts of the State to create a new pattern of land management units may meet with active opposition. If this happens, the State in India, with its much smaller capacity to deal with such opposition may find the problem well-nigh insoluble. I feel strongly that it is the special responsibility of the leaders of भूदान to pay attention to this aspect, as their avowed emphasis is on the overall social or collective view and as, whatever they do or say, its influence on popular sentiment is likely to be much greater than even their concrete achievements.

Before proceeding to a discussion of the main ingredients of a land policy appropriate to a plan of development I may recapitulate why I consider the भूदान approach unsuitable in this context. भूदान tries to attain comparatively equal distribution of income through a similar distribution of the means of production. It conceives the problem in terms of a simple economy of family producers. How this cannot apply in case of a more elaborate economic organization may be made

clear with reference to the concept of संपत्तिदान. संपत्तिदान is supposed to be the counterpart of भूदान in the sphere of urban economy. But the problem of concentration of power in the urban economy cannot be dealt with by any attempted simple transfer from large holders to small holders. In the urban economy the organizations who hold the key positions, to whom the greatest surpluses accrue and who have great economic strength and wield political influence are not simple divisible units like land. These organizations are complex integrated units which represent transport systems, power generation, international and internal trading on a large scale, credit and financial organizations, large mechanized units in all types of industrial activity. Bits of these cannot be separated and given away; the problem of concentration of properties and power in private hands, in this case, can only be dealt with by transferring the ownership of the integrated units to organizations—new or old—which represent social and collective interest. संपत्तिदान in the circumstances, cannot result in diffusing or socialising control over concentrated means of production; it can only result in some giving away of current income and can thus only become charity in the worst sense. Agricultural production in a plan of development will necessarily be concerned more and more with advanced techniques and must resort to more complex forms of economic organization. Therefore, in this case also considerations of distributive justice must be kept separate from those of organization of production. The production pattern must be determined by the available proportions of productive resources and by the possibility of increasing absorption of advanced technique. Economic and social policy can separately deal with the problem of distribution. Land management units must be shaped in accordance with the needs of the production pattern.

There appears at present general agreement on the nature of the problem and the main approach to its solution. The following statement by the Prime Minister, Pandit Jawaharlal Nehru, may be taken as representative of this.

“As agriculture is the principal occupation of the great majority of our people, it must be the first concern of the State. The abolition of the zamindari system has been the first reform and this must be expedited. But it must be remembered that this by itself is no solution of the problem. Even before this abolition a very large proportion of land was self-cultivated. An addition to it, without any further

reforms, will not help much. The small subsistence farm makes progress difficult. We have to think, therefore, and think soon, of other and further steps. There should be a diversion of a part of the agricultural population to other occupations. There should be a development of cottage and small-scale industries. But essentially the problem of agriculture needs co-operative cultivation and the application of modern techniques. This does not mean necessarily mechanising agriculture all over India, though some degree of mechanisation is taking place and is desirable. But there is no escape from some form of co-operative cultivation, if we are to make agriculture progressive.”*

Adopting the general approach indicated in the quotation it is possible to frame a land policy utilising only the concepts and methods that have already been widely discussed and partially adopted. These are the floor and ceiling to holdings, consolidation of holdings and farming co-operatives. I assume it to be accepted that the very small holding can find no place in the production organization of the future. None of the problems of inadequate or disproportionate equipment, of backward technique and inefficiency, of underemployment and wasted labour, of poverty and exploitation can be solved as long as the bulk of farming units are small.

The concept of the floor is required to define the lower limit to the size of holding. The ceiling is not equally obviously justified from the point of view of productive organization. For, the very large units may be also efficient in production. The main reason for adoption of the ceiling is socio-political. Among all resources the supply of land is the most limited and the claimants for its possession are extremely numerous. It is obviously unjust to allow the exploitation of any large surface of land at the hands of single individuals unless other overwhelming reasons make this highly desirable. Further, in light of the available supplies of land, labour and capital it would be undesirable to encourage capital intensive methods of production in regard to which the very large holdings may have special advantage; without intensive use of capital the very large individual holding operated with hired labour is not specially productive. Moreover, whatever the economies of larger scale management, they should, in the congested state of our countryside, accrue to collective

* Quoted in H. D. Malaviya : *Land Reforms in India*, (1954), pp. 91-92.

or co-operative bodies of cultivators rather than to an individual family. It may be noticed in this connection, that even the U.S.A. Farm Ownership Farms programme contemplates creation of such farms by subdividing large holdings and recognises both a ceiling and a floor to the farm ownership farm. On the other hand, barring a very small number of exceptional cases, as that of certain types of plantations or orchards, it is unlikely that the reduction in size of a very large holding to a holding of moderate size will bring about any diminution in per acre productivity. Such diminution has been reported where land surface included in large commercial estates had been broken up into very small holdings. But this procedure is not contemplated by us. A ceiling is finally necessary if social policy requires immediate redistribution, to some extent, of the land surface.

I shall not devote much attention to the problem of the determination of the floor or the ceiling. All the terms used and definitions given in this connection, such as that of the economic, the family, the basic, are capable of wide variations in interpretation. The determination of the limits, I consider, as essentially a matter of practical policy. If the concept of the floor is properly applied, its fixation gives the numbers of the uneconomic holders who cannot continue to exist as independent units. The floor will, therefore, be determined in relation to the ability of the state to pool the holdings of uneconomic holders and to form them into some sort of collective or co-operative holdings. The ceiling on the other hand, has reference to the area of land that can be made available for redistribution. The greater the area desired for redistribution the lower will be the ceiling.

Considerations of production economy do not seem to indicate any particular figures or proportions in this context. However, data from the Rural Credit Survey may be set out to illustrate the relative proportions involved. These data relate to all the cultivated holdings in the 600 villages selected for the survey in 75 districts. The cultivators were arranged, for the purpose, in order of the size of their cultivated holdings. When so arranged it was found that the first 10 per cent. or decile of the cultivators held more than 25 per cent. of the total land surface in almost all districts and held more than 30 per cent. of it in 51 of the 75 districts. The first 30 per cent. or three deciles taken together held more than 50 per cent. of the land in almost all districts and in 48 districts they held more than 60 per cent; in no district was this proportion

larger than 85 but in 6 it varied between 75 and 85 per cent. The middle four deciles held between 25 and 35 per cent. of the total cultivated land in the large majority of districts. The holdings of the last three deciles included less than 10 per cent. of the total cultivated land in the majority of districts; but in 27 out of the 75 districts they held between 10 and 15 per cent. Taking the broad division of cultivators into the upper half and lower half the relative size of their holdings of total land surface would be approximately 3:1.

The above taken together with the data relating to occupational distribution of families should give an idea of the overall dimensions of the problem. We may assume that about 60 per cent of families in rural India are cultivators in the sense of operating some cultivated land and that of the non-cultivators at least half depend for their support on agriculture and land. This gives about 80 per cent of rural families as interested in land management units and policy. We may, on the basis of data set out before, consider about half of the cultivators as having unsuitable units for independent land management, the proportion cannot at a minimum be put at less than a third of the cultivators. If we take the former figure the cultivating families together with the landless interested in reorganization, will form about half the total number of families in the countryside and, if the latter, about 40 per cent of them. Working with the data for existing distribution of cultivating holdings and assuming a transfer, because of the operation of the ceiling, of the order of 5 per cent of the total cultivated land, we have the following figures of the extent of land surface and number of families affected by reorganization; if, half the units cease to be independent about 50 per cent of rural families and 30 per cent of the cultivated land; and if, about one-third of cultivators are so affected, about 40 per cent of the rural families and about 15 per cent of the total land surface. These calculations are so broad as to be almost notional and they have been indulged in at this place only to give some idea of the dimension of the problem. The floor and the ceiling will vary from region to region in relation to the quality of land and size of holding. However, their definition will also necessarily depend on the ability of Government to undertake schemes of reorganization.

The two fundamental steps in reorganization of land management units in India are (i) redistribution of the land surface and (ii) formation of the larger consolidated units out of the pooled resources of the

uneconomic units and the surplus available for redistribution. The first step is an essential preliminary in almost all programmes of land improvement and agricultural development. Its importance is universally recognized in connection with the consolidation of fragmented holdings. It is, however, necessary from other points of view also. One can view the process of consolidation in a wider context as part of the process of a rational layout of the total land surface for agricultural and other utilization. The operation should, therefore, be undertaken as that of laying out areas, sections or fields for total land utilization and not be considered merely as that of mutual exchange of fields or fragments. Full advantage of the redistribution of surplus land could also not be had without this process of redistribution of land surface. The operation of the ceiling would yield small and large plots of land dispersed over a wide area. Some measure of redistribution would be necessary to utilize these appropriately. Therefore, for consolidation of fragmented holdings, for pooling together land included in uneconomic holdings and for utilizing surplus land available for redistribution in a similar manner, a general redistribution of land surface must be undertaken. As pointed out above it would obviously be wise to conceive the process as involving also a rational layout for total utilization. This task is no doubt of vast dimensions. But tasks of somewhat similar dimensions have been undertaken in other countries and the total work indicated above is not more complicated or larger than the process of consolidation undertaken currently by many State governments in India. As I visualise it the first stage in the process will be that of determining the general layout and the second that of locating in this layout the independent farm units now fixed in location and made impartible, and the co-operative estates or farms.

The formation of larger units out of pooled land and other resources will have two aspects, one compulsory and the other voluntary. I have assumed that once the floor has been defined independent units of farm management smaller in area will not be allowed to exist. Obviously the enforcement of this must be by some sort of legislation. The measure of compulsion may vary. In the early stages the step may be initiated, as in some programmes of consolidation only on the motion of a minimum number of families involved. However, as the development programme advances it must soon be generalised. The abolition of the independent existence of smaller units can only be subsequent to redistribution and

consolidation; also, before it takes place steps must be taken to formulate the basis of the new units and to equip them suitably. The formation of these new units out of the total pool may be essentially voluntary. It may be found useful to have floor and ceiling limits for these consolidated units also, so that in relation to their own scale of operations they might be neither too small nor too large. The number of such units that could be formed in a village would be broadly determined by the ceiling and floor limits; within these limits the formation of particular units would be the result of voluntary groupings.

It has been assumed above that the landless families who depend on land and agriculture would be provided for in the new consolidated units. It would be unnecessary, even unwise, to bring into the organization rural families who have distinct non-farm business and can depend on them. But as the process of reorganization will materially reduce the number of permanent farm servants, etc. and as one of its objectives is to improve the condition of those dependent entirely on casual labour, the landless must be made members of the consolidated co-operative farms. It is not necessary for me to enter here into details relating to conditions of entry, the capital share equivalent granted to each for the land and equipment that he brings into the pool and other similar problems. However, it would be necessary to hold that the surplus resulting from the operation of the ceiling is specifically the share of the landless; such provision alone can act as inducement for voluntary admissions of the landless into co-operative pools. It would be desirable also to provide for the voluntary accession of the independent farming units to co-operative farms.

Both these tasks, that of redistributing the land surface and the formation of a small number of co-operative farms in each village are immense in extent and complexity. I would argue that not only are they a *sine qua non* of any programme of land reform but also that they are not beyond our capacity, if a sincere and concentrated effort is made. Consolidation is already generally accepted as a necessary part of the programme by everybody. The formation and proper functioning of co-operative farms is undoubtedly less generally accepted as part of universal policy and is somewhat more difficult. It is however, equally necessary. I shall, without elaborating them, briefly state a number of reasons in favour of this proposition. In the first instance, without co-operatives, collectives or state farms an economic

reorganization for operation of the existing numerous small units is impossible. Secondly, except as members of a co-operative the small farmer can never be in a position to avail himself of technical, financial or other external aid of which he stands in need, more than anybody else. The findings of all studies, whether e.g. of the Rural Credit Survey or the Evaluation Organization are that the bigger man gets the greater profit out of everything, government loans, co-operative finance or other financial or technical assistance of any type. One need not go into the reasons for this state of affairs; it is, however, clear from the studies that the scattered, weak units cannot really be helped effectively unless they come together. Also, as long as there is no consolidation of these weak units the balance in rural society will always remain against them. Any close study of the effects of recent land reform legislation reveals large variations in its results, dependent chiefly on the strength of tenants and smaller holders in a locality or region. In a large number of instances legal protection and other devices prove constantly fruitless because of the strength and ingenuity of the strong. It is sad to record that large deflection of original intentions, brought about by the strong, has been reported even in the working of the भूदान movement. The moral is that unless the weak acquire economic strength by joining together they could never stand up and get full advantage of state policy and state legislation. The formation of a small number of co-operative farming societies of the smaller holders and the landless in each locality is a necessary step in this direction. It will be noticed that I consider redistribution as only a part of the process in the formation of the large co-operative farms. I cannot see any virtue in merely tenancy co-operatives which perpetuate the smaller units of management. Leaving scope for allotments or kitchen gardens would be welcome but the main cropping operations must be in terms of the large units. The experience elsewhere, such as with the Ejido in Mexico, emphasises the importance of this.

I do not think that widespread formation of such co-operatives is an impossible undertaking. In the initial stages the progress may be slow but once the movement gathers momentum the field could be covered fairly quickly. Wide extension of the activities of State governments in rural areas together with efforts made by the Central Government in directions of Community Development and National Extension already provide comparatively large staffs in the field; the work of this staff

would come to have real meaning and purpose only if it is linked to a programme of the formation and operation of such co-operatives. Instead of chiefly conducting propaganda they would find in these co-operatives numerous local units which could prove centres of demonstration and experimentation. All governmental information and propaganda, aid and assistance could be directed towards and routed through these co-operatives. The special terms of assistance, etc., laid down for these co-operatives should combine the features of the programmes envisaged in the draft outline of the Five Year Plan for the Registered Farms and for the Co-operative Farming Societies. Instead of receiving very little or nothing of government protection and assistance this step would ensure that the most disadvantaged received, as they should, the highest priority and the greatest assistance.

Further, a land management policy which retains only a limited number of small and medium farms which can operate economically as independent production units and brings all other families into comparatively large co-operative farms is likely to lead to a better utilisation of the labour of rural families. The element of under-employment about which a great deal is written will be made clear under such an arrangement and the extra labour uncovered could be made available for programmes of either capital works construction or for rural industrial development in a systematic manner. The rural industrial plan will then be visualised in two clear divisions; one chiefly of domestic work which directly supplements family living for the independent farm families and the other of industrial production for sale, local or otherwise organized within the farming co-operatives.

I should like to emphasize that all that I have said is intimately related to a plan for rapid economic development. If such a plan is not in operation a vigorous land policy is hardly likely to succeed. It is now universally recognized that creation of employment in other spheres is the only remedy to a large pressure of population on land from which India, for example, suffers. Most programmes of improvement of technique in agriculture do not increase employment on the land and even large irrigation works bring about only very limited increase in total agricultural employment. Therefore, the increase in employment has chiefly to be in spheres other than agricultural. The minimum target of an employment plan for India has to be cessation, at the earliest possible moment, of the increase in the number of families dependent for

their living on land and agriculture. Unless the number of families dependent on agriculture is stabilized there is little stability for measures of land reform. The prevention of sub-division or the creation of impartible holdings will be effective only if, in successive generations the number of families on land does not increase. The large co-operative farms, even with allied industrial employment, could also not effectively absorb a continuously increasing number of families.

I realise that I did not leave myself sufficient time to elaborate and explain my own concrete proposals regarding the structure of a land policy. It is perhaps unwise, anyway, to compress too much in one statement. Therefore, in concluding I shall content myself with reiterating the following basic propositions. That in relation to land management we are following, in this country today, a policy mainly of drift; that a programme of economic development requires more positive approach in respect of agricultural productive organization and units of land management; that a very large number of existing cultivating holdings are extremely unsuitable for functioning as independent units in a programme of agricultural development and that a rational layout of the land surface for its proper utilization and a programme for the creation of large consolidated holdings are essential ingredients in any agriculture and land development policy. I may add finally that it would be impossible to deal with this problem except in term of bold steps and very large and strenuous effort. However, these would be no more radical and strenuous than those undertaken by many other countries in analogous situations, as evidenced, for example, by the Mexican Agrarian Revolution which redistributed land in favour of the Ejidos or the transformations brought about in countries of South and East Europe both during the inter-war years and in the period after the Second World War.

**Publications of the Gokhale Institute of
Politics and Economics, Poona 4**

- No. 1:—The Salaries of Public Officials in India. By D. R. Gadgil. 1931. (Out of print).
- No. 2:—Imperial Preference for India (The Ottawa Agreement Examined). By D. R. Gadgil. 1932. (Out of print).
- No. 3:—A Survey of the Marketing of Fruit in Poona. By D. R. Gadgil and V. R. Gadgil. 1933. (Out of print).
- No. 4:—A Survey of Motor Bus Transportation in Six Districts of the Bombay Presidency. By D. R. Gadgil and L. V. Gogate. 1935. (Out of Print).
- No. 5:—Urban Handicrafts of the Bombay Deccan. By N. M. Joshi, M.A., 1936. (Out of Print).
- No. 6:—Legislative Protection and Relief of Agricultural Debtors in India. By K. G. Shivaswami. 1939. (Out of Print).
- No. 7:—A Survey of Farm Business in Wai Taluka. By D. R. Gadgil and V. R. Gadgil. 1940. (Out of Print).
- No. 8:—The Population Problem in India—A Regional Approach. By N. V. Sovani. 1942. (Out of Print).
- No. 9:—Regulation of Wages and Other Problems of Industrial Labour in India. By D. R. Gadgil. (Reprint, 1945). Price Rs. 5 or 10s.
- No. 10:—War and Indian Economic Policy. By D. R. Gadgil and N. V. Sovani. 1944. (Out of Print).
- No. 11:—The Aborigines—"So-called"—and Their Future. By G. S. Ghurye, Professor and Head of the Department of Sociology, University of Bombay. 1943. (Out of Print).
- No. 12:—Poona—A Socio-Economic Survey, Part I: Economic. By D. R. Gadgil; Assisted by the Staff of the Institute. Royal 8vo. Pp. 300, 1945. Price Rs. 15 or 30s.
- No. 13:—Federating India. By D. R. Gadgil. Demy 8vo. Pp. 117, 1945. Price Rs. 6 or 12s.
- No. 14:—The Socio-Economic Survey of Weaving Communities in Sholapur. By R. G. Kakade. Demy 8vo. Pp. 221, 1947. Price Rs. 10 or 20s.
- No. 15:—The Federal Problem in India. By D. R. Gadgil. Demy 8vo. Pp. 203, 1947. Price Rs. 8 or 16s.
- No. 16:—Bombay Finance—1921-1946. By T. M. Joshi. Demy 8vo. Pp. 220, 1947. Price Rs. 7-8-0 or 15s.
- No. 17:—Economic Effects of Irrigation (Report of a Survey of Direct and Indirect Benefits of the Godavari and Pravara Canals). By D. R. Gadgil. Demy 8vo. Pp. 184. Price Rs. 8 or 16s.
- No. 18:—The Social Survey of Kolhapur City: Part I—Population and Fertility. By N. V. Sovani, Assisted by the Staff of the Institute. Demy 8vo. Pp. 86, 1948. Price Rs. 4 or 8s.
- No. 19:—Some Observations on the Draft Constitution. By D. R. Gadgil. Demy 8vo. Pp. 112, 1948. Price Rs. 3 or 4s. 6d.
- No. 20:—Reports of the Commodity Prices Board. Edited By N. V. Sovani. 1948. Royal 8vo. Pp. 236. 1948. Price Rs. 10 or 15s.
- No. 21:—Post-War Inflation in India—A Survey. By N. V. Sovani. 1949. Royal 8vo. Pp. 100. Price Rs. 5 or 7s. 6d.
- No. 22:—Planning of Post-War Economic Development in India. By N. V. Sovani. 1951. Demy 8vo. Pp. 102. Price Rs. 3-8-0 or 5s.

- No. 23:—Social Survey of Kolhapur City. Vol. II—Industry, Trade and Labour. By N. V. Sovani. 1951. Demy 8vo. Pp. 346. Price Rs. 12 or 18s.
- No. 24:—Social Survey of Kolhapur City. Vol. III—Family Living and Social Life. By N. V. Sovani. 1952. Demy 8vo. Pp. 330. Price Rs. 12 or 18s.
- No. 25:—Poona—A Socio-Economic Survey. Part II, By D. R. Gadgil. 1952. Royal 8vo. Pp. 330. Price Rs. 15 or 30s.
- No. 26:—Report on the Poona Schedules of the National Sample Survey. By V. M. Dandekar. 1953. Royal 8vo. viii + 223. Price Rs. 6 or 9s.
- No. 27:—Survey of Fertility and Mortality in the Poona District. By V. M. Dandekar and Kumudini Dandekar. Royal 8vo. pp. 191. 1953. Price Rs. 5 or 7s. 6p.
- No. 28:—Structure and Working of Village Panchayats: A Survey based on case studies in Bombay and Madras. By A. V. Raman Rao. Royal 8vo. pp. 218. 1954. Price Rs. 7 or 11s. or \$ 1.50.
- No. 29:—Second Report on the Poona Schedules of the National Sample Survey (1950-51). By V. M. Dandekar. 1954. Royal 8vo. viii + 176. Price Rs. 6 or 9s. or \$ 1.25.

R. R. Kale Memorial Lectures

- 1938—The Social Process. By Dr. G. S. Ghurye, Professor of Sociology, Bombay University. Price As. 8.
- 1939—Federation versus Freedom. By B. R. Ambedkar, M.A., Ph.D. Price Re. 1.
- 1941—The Problem of the Aborigines in India. By A. V. Thakkar, I.C.E. Price Re. 1. (Out of Print).
- 1942—A Plea for Planning in Co-operation. By Vaikunth J. Mehta. Price As. 12. (Out of Print).
- 1943—The Formation of Federations. By S. G. Vaze. Price Rs. 1-8-0.
- 1948—Central Banking in India: A Retrospect. By Sir Chintaman D. Deshmukh. Price Rs. 1-8-0 or 2s. 3d.
- 1949—Public Administration in Democracy. By D. G. Karve. Price Rs. 2 or 3s.
- 1950—Policy of Protection in India. By Dr. H. L. Dey. Price Re. 1 or 1s. 6d.
- 1951—Competitive and Co-operation Trends in Federalism. By Prof. M. Venkatrangaiya. Price Rs. 1-8-0 or 2s. 3d.
- 1952—The Role of the Administrator: Past, Present and Future. By A. D. Gorwala. Price Rs. 2.
- 1954—Public Administration and Economic Development. By W. R. Natu. Price Re. 1 or 1s. 6d. or \$ 0.20.

